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PROBLEMS AND PROSPECTS

By

RICHARD F. BEHRENDT

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The immediate aim of the Committee on International Economic Policy is to further the serious and competent consideration of the issues which confront all the free peoples of the world and which imply their useful cooperation in reconstructing their economy after the victory of the United Nations.

To that end the Committee will welcome the cooperation of all organizations and individuals who are interested, and will be happy to receive the comments and suggestions which it hopes that the publication of a series of papers from its Advisory Committee on Economics may call forth.

The Committee looks forward to an exchange of views and data with all other committees engaged in postwar studies.

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The following study by Richard F. Behrendt, Professor of International Affairs and Chairman of Area Studies at Colgate University, is one of a series prepared for the Advisory Committee on Economics to the Committee on International Economic Policy.

The views expressed in each of these studies are those of the author.

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1. *Its Semi-Colonial Character*

The outstanding feature of the economy of most of Latin America up to the present time has been semi-colonial in character. The Latin American countries have complete independence politically; but their economics depend to a very large extent on foreign enterprise and capital, on trade with other parts of the world, and on the exportation of one or a few raw materials and food stuffs.

During the long colonial period of Latin America, from the early sixteenth to the early nineteenth century, the development of the economic life was seriously hampered by the restrictive mercantilist policies of Spain and Portugal. Any industry which might have competed with the products of the mother countries was discouraged. Production and commerce suffered from a great variety of taxes, fees, and uneconomical regulations of transportation and communications. The existing social structure benefited a small ruling class who lived on the labor of Indian serfs and Negro slaves. The vast majority of the colonial population was kept in ignorance and utter dependence on its social superiors. Foreign enterprises and ideas which might have created new lines of production were excluded as far as possible.

Under these circumstances there was little incentive for active economic development, for the opening of new frontiers, for the introduction of new industries or more efficient methods of production. Colonial society in Latin America, much more so than in Anglo-America, was essentially stationary, and many of the economic and social problems of Latin America today have their origin in that colonial society.

Most Latin American countries gained their national independence approximately half a century later than the United States, and some of them became independent nations only about half a century ago. Political independence did not bring about any basic economic or social changes. It is true that foreign trade became freer and could then be carried on with many countries. Foreign capitalists and businessmen could and did come to Latin America and provided new ideas and employment. On the other hand, wealth, education, and political power remained limited for a long time to a small minority of prominent families with large land holdings, the church, and professional politicians. The large masses of the people could not become independent farmers or businessmen because they were

lacking in knowledge, capital, and training. Immigration from Europe remained small and numerically insignificant in most countries, in contrast to the United States where European immigrants furnished an indispensable labor supply for growing industries and railroads and helped settle the central and western parts of the North American continent.

These simple facts may help to explain why the economic activity of most parts of Latin America is still poorly developed. In the first place, the population is small: in all the twenty republics covering an area more than two and one half times larger than that of the continental United States, we find approximately 135,000,000 people, or less than in the U. S. A. The distribution of this population is extremely unequal: a large proportion is concentrated around a few big cities, on high plateaus in tropical countries and near the coast or along important rivers, while huge areas of the interior, especially in South America, remain practically empty and economically untouched.

Small population means insufficient labor supply for new industries and small demand for products. The purchasing power of Latin America's population is reduced even more by the extremely low productivity of most of the people who live practically in a state of self-sufficiency.

In 1943, a large chemical and pharmaceutical concern in the United States attempted to estimate the potential sales of its products in Latin America. It calculated that the purchasing power of Mexico, with 20,000,000 people, was then less than that of Connecticut (population 1,700,000), the purchasing power of Brazil, with 45,000,000 people, less than that of California (population 6,000,000). At the same time the over-all income of the 135,000,000 Latin Americans was estimated at $15 billion a year or a little over $100 per person. That of the people of the United States, only slightly more numerous, was then estimated as $149 billion or more than $1,000 per person. An Ecuadorean economist[1] estimated in 1942 that of the approximately 750,000 families in his country, two-thirds (500,000) had an income of 50 sucres (about $7) or less per month. This included the entire Indian population. 210,000 families had an income of between 50 and 100 sucres. Of the remaining families, about 15,000 earned between 100 and 300 sucres a month, and only 600, or less than one per cent, more than 300 sucres (about $43).

Intimately related to the level of productivity are, of course, nutrition, health, and life expectancy. The National Council of Nutrition of

1 Luis Eduardo Lasso, *Revista de Derecho y Ciencias Sociales*, Universidad Central de Quito, Epoca 2a., Vol. III, No. 17, 1942, pp. 84–85.

Chile holds that the *minimum* consumption requirement is 2,400 calories and 70 protides. The statistical *average* diet in Chile in 1938 was found to be 2,288 calories and 68.5 protides.[2] "The average Salvadorian today has only one-half to two-thirds of the calories he needs for a vigorous, healthy life."[3] Tuberculosis deaths in 1940 in the United States were 45.9 per 100,000 population; in Panama 210; in Brazil 250; and in Chile 276. The annual death rate per 100,000 population was then 9.8 in New York City; 23.8 in Mexico City; and 24.8 in Santiago, Chile. The infant mortality rate (death of infants of less than one year of age, per 1,000 live births) was then 46 in the United States, in comparison with 217 in Chile. Life expectancy in the United States in 1940 was 62.5 years for whites; in Chile 35 years for the entire population; and in Peru less than 32 years. In other words, the average Latin American cannot look forward to living much more than one-half of the time the average white North American lives.

Another negative factor is the low development of popular education. A first prerequisite for economic development is a knowledge of better opportunities and of the way to attain them. People who for generations have lived in virtual isolation without any educational opportunities, harassed by malnutrition, endemic diseases, and without belief in material progress, cannot be expected to detect better opportunities and to take advantage of them. Such people will rather continue to live at the subsistence level and will give outsiders the impression of being hopelessly backward.

Whatever economic progress Latin America has made in the last century and a quarter has been to a large extent the work of recent immigrants and their descendants and of foreign corporations. It was they who introduced the modern livestock and meat-packing industries in the La Plata basin (Argentina and Uruguay), who developed the large-scale sugar industry in Cuba, the important banana, cacao, and fiber economy of Central America, mining in Mexico, Peru, Chile and partly Bolivia, oil production in Mexico, Venezuela, and Colombia. European and, later on, North American businessmen opened Latin America to foreign imports and became instrumental in providing Latin American export commodities for consumers and for manufacturing industries in Europe and the United States. Native capital existed in Latin America in the form of the fortunes of the traditional ruling class. However, its

2 According to Dr. Salvador Allende G., *La realidad medico-social chilena*, Santiago, Chile: Ministerio de Salubridad, 1939.

3 William Vogt, *The Population of El Salvador and Its Natural Resources*, Washington, D. C.: Pan American Union, 1946, p. 3.

owners were in most cases too timid to risk their capital in new and untried enterprises. Therefore, it was up to foreign capitalists and corporations to take the initiative in introducing new lines of production. Under these circumstances it is not surprising that foreigners gained strongholds in the economy of most Latin American countries and that they came to exercise considerable political influence in some of them. It was also natural that these foreigners were more interested in developing profitable lines of export and import rather than in catering to the domestic economy of the insufficiently developed countries in the south.

In this way most Latin American countries came to specialize in the production of a few raw materials for foreign markets, in accordance with their geographic and social conditions and the circumstances prevailing in the world market. Thus, Cuba and the Dominican Republic

TABLE I

LEADING EXPORT COMMODITIES OF LATIN AMERICAN COUNTRIES

Country	First Export Commodity	% of Total Exports	Second Export Commodity	% of Total Exports	% of All Other Export Commodities
El Salvador	Coffee	89.2	Gold and Silver	5.7	5.1
Venezuela	Oil	89.0	Coffee	5.2	5.8
Honduras	Bananas	82.3	Gold and Silver	9.0	8.7
Panama	Bananas	73.6	Cacao	11.8	14.6
Cuba	Sugar	72.7	Tobacco	5.9	21.4
Bolivia	Tin	71.4	Silver	12.3	16.3
Guatemala	Coffee	70.2	Bananas	25.0	4.8
Haiti	Coffee	62.1	Cotton	15.3	22.6
Dominican Republic	Sugar	59.8	Cacao	13.3	26.9
Colombia	Coffee	58.4	Oil	17.9	23.7
Costa Rica	Coffee	57.5	Bananas	23.5	19.2
Brazil	Coffee	45.5	Cotton	19.1	35.4
Argentina	Cereals	42.1	Meat	22.7	35.2
Uruguay	Wool	40.4	Meat	9.4	49.2
Chile	Copper	38.0	Nitrates	28.2	33.8
Mexico	Minerals (not precious)	36.6	Gold and Silver	30.3	33.1
Nicaragua	Coffee	34.5	Gold	26.3	39.2
Peru	Cotton	27.3	Oil	23.2	49.5
Paraguay	Cotton	26.6	Timber (& timber extracts)	24.6	48.8
Ecuador	Cacao	23.2	Oil	15.6	61.2

exported sugar; most of the Central American republics coffee and bananas; Brazil and Colombia coffee; Argentina and Uruguay livestock products; Mexico and the west coast countries of South America minerals; and Venezuela, during the last twenty-five years, came to depend on oil for three-fourths or more of her total export trade.

Table I gives an idea of the extent of one- and two-crop economy existing in 1938, the last complete year before World War II, in the foreign trade of the various Latin American countries and of the commodities involved.

In 1938 the following eight commodities represented fully 62.1 per cent of the entire export trade of Latin America (in order of value): petroleum, coffee, meats, sugar, copper, wool, cotton, and various ores, exclusive of copper and tin.

On the other hand—and this is another aspect of the same situation—many countries of the area imported from very distant parts considerable amounts of staple goods which they would have been quite able to produce themselves with proper organization and more ample labor supply. Despite their abundant and fertile soils, Argentina and Uruguay were dependent upon outside supplies of potatoes, rice, and vegetable oils, quite important for the diet of their populations; Peru upon rice, wheat, tobacco, cacao, tea, and jute (this latter indispensable for the sacks in which Peruvian sugar is shipped). Mexico had to secure abroad approximately one-fifth of its wheat, besides vegetable oils, corn, copra, and fish (with two long coast lines on seas teeming with fish!). Panama, with vast woods covering most of the country and with equally plentiful fishery resources, imported timber and canned fish from the United States and rice from the Far East. And Bolivia's purchases of this type of articles amounted to more than one-third of its total imports.

It goes without saying that under these circumstances most manufactured goods had to be obtained abroad in exchange for the exports of staple commodities. Argentina shipped to Europe untanned hides and skins, plus the quebracho extract for tanning them, and got them back in the form of shoes. South American wool and cotton came back from more highly industrialized countries in the form of textiles and clothes. Mexican henequen (hemp) went to the United States to be made into rope. Even the refining of Mexican and Venezuelan oil and the smelting of Chilean copper was done elsewhere.[4]

[4] Notable changes have taken place recently in some of these cases. See Chapter I, 3.

This state of affairs naturally resulted in an unusually marked dependence of those countries on foreign markets. Foreign sales account for over one-third of domestic production in most Latin American countries, compared with only 8 to 10 per cent in the United States. However, as a large proportion of the people in most Latin American countries live practically in a state of self-sufficiency or produce only a limited amount of simple foodstuffs for the local market, the percentage of people directly dependent on foreign commerce is relatively limited.

While this type of highly specialized one- or two-crop economy corresponded fairly well to the principle of international division of labor based on comparative advantages, it posed increasingly serious problems to the Latin Americans. Every time an economic depression or a war broke out elsewhere in the world, Latin American exports decreased drastically, employment shrunk and government revenues decreased to the point where public works had to be abandoned, public employees could not be paid, and foreign debt services had to be suspended. Social and political unrest often resulted from such situations. In times of war supply sources of vitally important consumer goods disappeared and transportation and communications with belligerent countries were interrupted. Crop failures of important export commodities sometimes had catastrophic consequences for the entire national economy. Restrictive nationalistic or imperial trade policies of large and more highly developed industrial countries such as Germany, France, the United States, and (since the early 1930's) Britain, hurt Latin American countries grievously, particularly in the period between the two world wars.

For all these reasons Latin Americans have become increasingly dissatisfied with the so-called semi-colonial and mono-cultural economic structure of their countries which has prevailed for the last century. Since the First World War and even more since the outbreak of the Second World War in Europe, the general trend of economic policies in Latin America has been toward diversification of their economies and a higher degree of self-sufficiency.

2. *General Structure of Latin America's Foreign Trade*

Latin America is not a homogeneous unit. It consists of twenty different countries in various stages of general development and with extremely different geographic conditions, social and economic characteristics. Most important differences exist between such countries as Uruguay, Argentina, and Costa Rica on one side and Paraguay, Bolivia, and Honduras on the other. Even within the same country obvious

contrasts can be found between various areas or between urban and rural districts. We find a wide range of altitudes, climatic zones, soil conditions, and almost all stages of economic development, from primitive nomadic economies to advanced heavy industries represented in some parts of this group of twenty countries to which we refer rather loosely under the common denominator of Latin America.

Yet, with this important qualification, it is possible to make some general statements about the entire area, particularly with regard to certain problems which all nations of Latin America have in common and which set them apart from the United States and certain parts of Europe.

With respect to leading export commodities, three principal groups of countries may roughly be distinguished: First, the mineral exporting countries comprising Mexico (silver, lead, copper, oil), Venezuela (oil), and the west coast countries of South America: Colombia (oil, gold), Peru (copper, silver, oil), Bolivia (tin, zinc, silver, gold), and Chile (copper and nitrates).

Second, the agricultural and livestock countries of temperate climate: the La Plata countries of Argentina, Uruguay, and Paraguay with their highly developed exports of meat, wool, hides and skins and (in the case of Argentina) cereals. The southernmost part of Brazil should be added to this group.

Third, the agricultural countries of tropical climate comprising most of Brazil (coffee, cotton, cacao, and vegetable oils), Cuba and the Dominican Republic with their sugar and tobacco, the Central American countries as well as part of Mexico and Colombia with their bananas. In Colombia, Guatemala, El Salvador and Costa Rica coffee outranks bananas. Cacao exports are of increasing value in Costa Rica, Panama and the Dominican Republic. We might also remember the importance of cotton for Peru and Ecuador and of hemp (henequen, sisal and abacá) for parts of Mexico, Cuba, Haiti, and Central America.

This brief enumeration can help us understand to what parts of the world the principal export commodities of these three groups of countries go. Obviously, the minerals of the first group of countries are normally in demand in highly developed industrial countries such as Britain, Germany, the United States and in the smaller industrial countries in Europe. The second group of countries, producing meat and cereals, have never been able to find a large market in the United States because their products compete with United States products on the world market rather than to complement United States production.[5] Their

[5] However, substantial amounts of canned meats have been exported from the La Plata countries to the United States.

TABLE II

GEOGRAPHIC DISTRIBUTION OF LATIN AMERICA'S EXPORTS AMONG PRINCIPAL CUSTOMERS—1939

Country and Region	Total Exports in 1,000 U.S. $	Exports In per cent of total exports: To U.S.A.	To United Kingdom	To France	To Germany	To Italy	To Japan
Mexico	176,489	74.2	5.8	1.6	5.6	1.7	1.0
Guatemala	16,985	70.7	0.4	0.4	11.5	0.2	—
El Salvador	12,739	59.9	0.2	0.5	9.0	1.1	0.03
Honduras	9,867	90.7	1.8	—	1.9	0.1	0.2
Nicaragua	8,301	77.5	1.3	2.0	10.9	0.06	0.5
Costa Rica	9,086	45.6	16.9	0.9	25.1	0.8	0.6
Panama	3,487	85.8	1.3	—	4.0	—	—
Cuba	147,676	75.3	12.2	1.2	1.0	0.3	0.1
Haiti	7,268	34.4	18.9	21.0	3.1	0.4	0.07
Dominican Republic	18,643	27.1	36.3	11.9	2.1	—	0.4
Venezuela	298,871	15.8	4.4	1.8	1.9	0.5	0.02
Colombia	100,885	68.0	1.4	3.1	7.3	1.3	0.03
CARIBBEAN REGION	810,297	50.3	6.5	2.1	3.9	0.8	0.3
BRAZIL	305,395	36.1	9.6	6.3	12.1	2.4	5.4
Ecuador	11,360	49.1	3.7	6.5	6.8	2.2	3.9
Peru	72,089	30.4	19.6	5.6	6.0	0.7	2.4
Bolivia	43,003	9.2	64.8	0.02	0.5	—	1.2
Chile	138,368	30.5	12.2	4.7	8.4	3.7	1.8
SOUTH AMERICAN WEST COAST REGION	264,840	27.8	22.8	4.8	6.4	2.2	1.9
Argentina	425,543	12.0	35.9	4.8	5.7	2.1	0.7
Uruguay	50,683	13.8	18.5	3.8	12.1	6.0	1.8
Paraguay	8,321	14.7	7.9	1.8	5.0	0.4	0.02
LA PLATA REGION	484,547	12.2	33.6	4.7	6.2	2.5	0.8
LATIN AMERICA—TOTAL	1,865,059	34.9	16.3	3.8	6.2	1.7	1.5

Source: American Republics Unit, United States Department of Commerce.

TABLE III

GEOGRAPHIC DISTRIBUTION OF LATIN AMERICA'S IMPORTS FROM PRINCIPAL SUPPLIER COUNTRIES—1939

Country and Region	Total Imports in 1,000 U.S. $	Imports In per cent of total imports: From U.S.A.	From United Kingdom	From France	From Germany	From Italy	From Japan
Mexico	121,542	66.0	2.6	3.7	12.7	2.2	1.2
Guatemala	15,296	54.5	3.9	1.4	27.0	1.7	0.3
El Salvador	8,850	53.0	6.9	3.6	17.5	4.3	0.04
Honduras	9,704	65.3	3.0	1.0	11.4	0.4	6.0
Nicaragua	6,365	68.4	5.2	2.6	12.2	0.5	0.9
Costa Rica	16,885	58.8	4.0	1.3	17.7	1.7	5.1
Panama	20,464	58.2	4.7	2.4	7.9	0.7	9.8
Cuba	105,862	74.0	2.9	2.1	3.2	0.9	0.4
Haiti	8,181	62.3	11.1	5.1	5.7	0.9	2.4
Dominican Republic	11,592	59.2	4.2	3.0	8.0	1.6	9.6
Venezuela	102,324	61.1	6.2	3.0	9.5	2.5	1.9
Colombia	104,536	55.6	10.5	2.9	12.8	2.2	0.2
CARIBBEAN REGION	531,601	63.4	5.3	2.9	10.4	1.9	1.6
BRAZIL	261,012	33.3	9.3	2.8	19.4	1.8	1.5
Ecuador	10,190	48.7	5.5	5.0	18.1	3.0	5.2
Peru	48,344	41.1	8.4	3.5	14.7	2.0	3.1
Bolivia	23,595	22.8	5.8	1.9	12.4	2.4	4.6
Chile	84,673	31.1	8.3	2.3	22.7	3.8	3.8
SOUTH AMERICAN WEST COAST REGION	166,802	33.9	7.8	2.8	18.7	3.1	3.7
Argentina	337,679	17.2	19.9	5.6	9.2	2.7	0.8
Uruguay	32,687	5.2	18.3	2.4	16.4	6.4	2.7
Paraguay	6,625	9.7	7.7	1.8	11.7	2.7	12.9
LA PLATA REGION	376,991	16.0	19.5	5.2	9.9	3.0	1.2
LATIN AMERICA—TOTAL	1,336,406	40.5	10.4	3.5	13.1	2.3	1.8

Source: American Republics Unit, United States Department of Commerce.

natural markets have been the densely populated and industrialized countries of Europe, especially Great Britain. The same is true for cotton. In contrast, the third group of countries exporting products of tropical agriculture have been able to sell to the United States the major part of their exports, most of which are admitted duty free. This country has been for some time the world's largest consumer of coffee, cacao, and tropical fruits. This situation is reflected in Tables II and III.

This trading pattern has resulted in different degrees of trade intensity between Latin American countries and the United States. The tropical countries of the Caribbean region, geographically closest to us and with a natural production program complementing ours in many ways, have consistently shipped to us more than one-half of their total exports and in some cases more than three-fourths. The orientation of that region for its imports was perhaps even more strongly toward the United States, which was partly due to the influence of United States capital investments and subsidiary enterprises operating in the area. The only formidable competitor to United States exports in that area was, on the whole, Germany.

Brazil sold in the United States, the world's largest coffee and cacao consumer, more than one-third of her exports and purchased from the United States about the same proportion of her total imports. Here, too, Germany had attained the second place, both in imports and exports, largely by means of barter deals.

The mining countries, most of which are located in the western part of the South American continent, carried on between one-fourth and one-third of their foreign trade with North America.[6] Here again, the relatively strong position of Germany as a supplier was remarkable during the last few years preceding the outbreak of the recent war in Europe. It is contrasted with comparatively very limited German purchases in that region.

The countries of southeastern South America ("La Plata Region"), of temparate climate, had comparatively the smallest amount of trade with the United States and depended predominantly on commerce with Europe. This is where Britain's position used to be strongest, bolstered

6 The low figure of Bolivia's exports to the United States, like that of Venezuela's exports, does not tell the true story: Between the two world wars, all of Bolivia's tin ore, her principal export commodity, was first shipped to England for smelting. A large part of it was then re-exported to the United States for industrial use. On the other hand, all copper imported into the United States from Latin America, particularly Chile and Peru, before World War II was re-exported to Europe after refining, due to the U. S. protectionist tariff levied on all foreign copper destined for consumption in this country.

by British demand for that region's meats, cereals and wool as well as the sizable and powerful investments of British capital in railroads, public utilities and livestock industries.

We thus find a fairly consistent pattern of a decreasing intensity of commercial relations between Latin America and the United States going from north to south away from this country, with Cuba at one end of the scale and Uruguay at the other. This is shown in Table IV.

TABLE IV

SHARE OF THE UNITED STATES IN THE FOREIGN TRADE OF LATIN AMERICAN REPUBLICS

Imports from the U.S. (% of total imports)	*1938*	Exports to the U.S. (% of total exports)
71	Cuba	76
58	Mexico	67
52	Central America	67
51	Colombia	53
56	Venezuela	13*
35	Ecuador	37
24	Brazil	34
34	Peru	26
28	Chile	15
25	Bolivia	5
10	Paraguay	12
18	Argentina	9
12	Uruguay	4

* This percentage is not indicative of the real situation because most Venezuelan oil is first shipped to the Dutch West Indies for refining.

The United States has consistently sold more to Argentina and Uruguay than she has bought from those countries. This was possible because of the large favorable balances of trade which those countries had with Great Britain (Table V):

TABLE V

Foreign Trade in 1938 of	Argentina (Millions of Argentine pesos)	Uruguay (Millions of Uruguayan pesos)
Imports from Great Britain	260.2	14.8
Exports to Great Britain	445.7	25.2
Balance of Trade	+185.5	+19.6
Imports from U.S.A.	250.5	9.0
Exports to U.S.A.	113.8	3.8
Balance of Trade	−136.7	−5.2

It is clear from this how important to us has been the continuance of heavy British purchases in those countries in order to enable them to continue their purchases of United States goods. This, of course, is possible only if they can freely dispose of the receipts from their exports to Britain and convert them into other currencies. But this really means that the real problem is how the British can sell enough to us to obtain the means of payment for goods from these countries.

In broader geographic terms, the foreign trade of Latin America in 1938 can be divided (Table VI) thus:

TABLE VI

GEOGRAPHIC DISTRIBUTION OF LATIN AMERICAN EXPORTS AND IMPORTS BY CONTINENTS

Of all Latin American Exports in 1938 Went To		Of all Latin American Imports in 1938 Came From
54.4%	Europe	43.6%
30.2%	United States	33.9%
6.5%	Latin America	10.0%
1.4%	Asia	4.7%
7.5%	Other parts of the world	7.8%

The importance to Latin America of certain areas as principal purchasers of her leading export commodities can be seen from the following (Table VII) figures. They show percentages of total exports of each commodity in 1938.

TABLE VII

GEOGRAPHIC DISTRIBUTION OF EXPORTS OF PRINCIPAL COMMODITIES

To:	U.S.A.	Continental Europe	Great Britain	Other Countries
Sugar	72	6	18	4
Coffee	57	29	1	13
Bananas	80	12	8	—
Hides & Skins	24	57	9	10
Wool	8	50	23	19 (Japan)
Meats	5	19	74	2
Cotton	2	48	26	24 (Japan)
Wheat	—	19	13	68 (much of this to other Latin American countries)

Japan had become an increasingly important buyer of cotton from Peru and Brazil and of ores from the West Coast countries of South America, Brazil, and Mexico.

Interesting changes can be noticed in looking over the development of Latin America's trade with the principal foreign commercial nations during the generation prior to the Second World War.

TABLE VIII

DEVELOPMENT OF THE SHARE OF PRINCIPAL TRADING COUNTRIES IN THE IMPORTS AND EXPORTS OF LATIN AMERICA

	Per cent of the Aggregate Value of Imports of Latin America in the Years							
Country	1910	1913	1917	1920	1929	1933	1938	1941
U.S.A.	22.6	25.0	54.8	50.2	38.7	29.2	33.4	62.4
United Kingdom	25.0	24.4	14.9	16.7	14.9	18.1	12.5	7.8
France	8.0	8.3	3.7	4.8	5.1	4.9	3.3	0.1
Germany	14.9	16.6	——	3.4	10.8	11.5	16.2	0.5
Italy	4.9	5.0	——				3.0	0.1
Japan	0.1	0.1	——			1.8	2.6	2.6
	Per cent of the Aggregate Value of Exports of Latin America in the Years							
Country	1910	1913	1917	1920	1929	1933	1938	1941
U.S.A.	33.8	30.8	51.7	47.7	34.0	29.4	33.2	54.0
United Kingdom	20.5	21.2	21.0	17.9	18.5	22.1	18.6	13.1
France	8.4	8.0	8.0	5.3	6.2	6.2	4.1	0.1
Germany	10.9	12.4	——	1.8	8.1	6.9	10.4	0.3
Italy	1.2	2.0				——	1.6	0.02
Japan	0.1	0.1				0.3	1.3	2.7

Source: United States Department of Commerce.

It is evident how Latin America's trade with the belligerent countries of Europe was affected by the two world wars, particularly as far as imports were concerned; and how in both cases the United States made large gains. These gains, however, were largely lost after the First World War, although this is true more with respect to United States purchases from Latin America than with respect to her sales to that region. The latter were, of course, favored by the tremendous development of United States industrial production in the 1920's which placed this country practically beyond the reach of European competition in a number of manufactured articles. While thus a definite trend toward relative growth of the United States position in Latin America's import trade is obvious, the comparative position of this country in the export trade of our southern neighbors has remained essentially stationary over this period, with the exception of the war years and the immediate post-war periods. In each case we found it more to our advantage to favor

suppliers in other parts of the world, after the return of more normal market conditions, or to restrict once more imports of foodstuffs and raw materials from Latin America which normally competed with United States products, particularly sugar and ores.

Between 1929 and 1937 the United States had an unfavorable balance of trade with Latin America as a whole, notwithstanding our favorable trade balance with some of the republics. On the other hand, the Latin Americans had to remit to this country important sums representing debt services, profits of United States capital invested in the south, and charges for shipping, telegraph services, insurance, and other services performed by United States enterprises.

Another outstanding fact is the striking and fairly consistent decline of Great Britain as a supplier of Latin America. After the First World War the British never regained their previous leading position, in relative terms. In the early 1930's they were able to stage a limited comeback but they suffered a serious loss between 1933 and 1938—from 18.1% to 12.5% of Latin America's total import trade.

A similar decline can be noticed in the case of France, where it has been even more marked and more consistent, as far as French exports to Latin America are concerned. On the other hand, Germany succeeded in reviving her trade with Latin America in a surprisingly short time after the First World War, particularly in regard to her own exports. Precisely during the period of greatest decline in British and French sales to this region, between 1933 and 1938, Germany made the largest headway, from 11.5% to 16.2%, practically reaching with this latter figure her prewar record of 1912. This was largely due to the bilateral barter and compensation trade policies of the Nazi regime. It is clear that these hurt Britain and France rather than the United States, as North American imports to Latin America increased during these years from 29.2% to 33.4%. In contrast to Britain, Germany has always figured more prominently as a supplier than as a customer in most countries of Latin America.

Italy's share in both imports and exports was never too impressive except in a few countries with sizable population groups of Italian descent. It has declined, relatively, during most of the period under review.

Japan in the 1920's was practically a newcomer to the Latin American field. Not being a consumer of most of Latin America's chief export commodities, except cotton and ores, she was unable to purchase much in most of the countries. On the other hand, between the two world wars Japanese manufactured goods were in considerable demand

TABLE IX

EXPORT, IMPORT, AND TOTAL FOREIGN TRADE OF THE REPUBLICS AND REGIONS OF LATIN AMERICA, DURING THE DECADE PRECEDING WORLD WAR II.

Country and Region	Total Export Trade, 1929–1939 in Million $ U.S.	% of Total Export Trade of Latin America, 1929–1939	Total Import Trade, 1929–1939, in Million $ U.S.	% of Total Import Trade of Latin America, 1929–1939	Total Foreign Trade Per Capita 1938, $ U.S.	% of World Trade 1938
Mexico	2,083,244	10.5	1,310,902	9.1	15.11	.63
Guatemala	175,476	0.9	136,336	0.9	12.02	.08
El Salvador	125,138	0.6	102,022	0.7	11.81	.05
Honduras	161,613	0.8	119,993	0.8	18.51	.04
Nicaragua	71,954	0.4	65,647	0.5	11.00	.02
Costa Rica	124,036	0.6	117,976	0.8	35.02	.05
Panama	37,478	0.2	177,520	1.2	42.20	.04
Cuba	1,590,820	8.0	1,165,807	8.2	59.21	.53
Haiti	106,451	0.5	104,729	0.7	5.38	.03
Dominican Republic	170,786	0.9	130,144	0.9	17.12	.05
Venezuela	2,020,751	10.1	686,906	4.8	104.42	.79
Colombia	994,066	5.0	763,404	5.3	19.37	.38
CARIBBEAN REGION	7,661,813	38.5	4,881,486	33.9	26.01	2.69
BRAZIL	3,234,480	16.2	2,644,067	18.4	13.43	1.26
Ecuador	136,476	0.7	110,053	0.8	7.89	.05
Peru	833,998	4.2	486,702	3.4	19.29	.29
Bolivia	365,247	1.8	193,397	1.3	18.23	.13
Chile	1,400,846	7.0	953,512	6.6	48.81	.52
SOUTH AMERICAN WEST COAST REGION	2,736,567	13.7	1,743,664	12.1	25.29	0.99
Argentina	5,632,887	28.2	4,550,245	31.6	56.14	1.88
Uruguay	571,282	2.9	487,071	3.4	46.46	.23
Paraguay	94,566	0.5	87,093	0.6	17.23	.04
LA PLATA REGION	6,298,735	31.6	5,124,409	35.6	52.46	2.15
LATIN AMERICA—TOTAL	19,931,595	100.0	14,392,626	100.0	24.90	7.09

in this area because of their low prices which appealed to the masses of poor consumers to whom quality cannot be a decisive consideration. Imports from Japan would have reached much higher figures had it not been for the restrictive policies of many Latin American countries in trying to restore a balance of trade with that country.

The relative importance of the various countries and regions of Latin America for international trade can be seen from Table IX.

Worth pointing out is the relatively high per capita value of the total foreign trade of such countries as Venezuela, Cuba, Argentina, Chile and Uruguay, in comparison with the United States ($38.81 in 1938)—another indication of those countries' greater dependence on the world market. The percentage share of Latin America in the world's trade does not compare unfavorably with that of the United States (10.66% in 1938), considering the enormous differences in productive capacity. Or perhaps it would be more correct to say that this relatively slight difference reflects the rather limited extent to which the United States had participated in the world economy until the Second World War. Great Britain, with less than one-third of the United States' or Latin America's population, at that time was responsible for 13.84% of world trade—almost twice the share of the twenty Latin American nations; and the value of the foreign trade of Germany, with approximately one-half of the population of the United States or Latin America, was roughly equal to that of the United States.

In 1938, small Belgium had a larger share in world trade (3.19%) than the entire Caribbean area; and Argentina and Brazil were surpassed by countries with considerably smaller populations such as Australia, Sweden, and South Africa. The extremely low purchasing power of the Latin American countries is clearly reflected in these figures.

It is also worth mentioning that only five of the twenty countries of Latin America (Argentina, Brazil, Mexico, Cuba, and Chile), with approximately two-thirds of the area's total population, were responsible for 69.9% of its export trade and 73.9% of its import trade.

The relative economic importance of Latin America and other major areas just before World War II can also be appraised, in a general way, from the average (Table X) figures showing the general geographic distribution of primary production in the years 1936–1938, in per cent of world production.[7]

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7 Source: *Inter-American Statistical Yearbook*, 1942, Ed. Raul C. Migone. Buenos Aires, New York, Rio de Janeiro, n. d., pp. 134–135.

TABLE X

	Foodstuffs	Other Raw Materials	Gold & Silver	Fodder Cereals
Latin America	8.7	5.9	11.2	9.2
North America	18.5	34.5	24.9	41.0
Continental Europe*	34.9	20.6	2.1	26.1
Great Britain	2.8	5.1	——	1.4
U.S.S.R.	12.5	11.2	12.9	12.4
Asia*	17.3	16.2	8.2	5.7
Africa	2.4	4.1	35.5	3.9
Oceania	2.9	2.4	5.2	0.3

* Exclusive of the U.S.S.R.

Naturally, these figures do not tell the whole story. In certain fields the position of Latin American countries is decisive. Argentina is one of the world's largest producers and exporters of wheat and meats. Both Argentina and Uruguay rank high as suppliers of wool. Almost one-half of the world's trade in beef, lamb and mutton comes from the temperate zone of South America. Argentina, Uruguay and Brazil account for close to nine-tenths of the world exports of canned meat. In corn, Argentina ranks second and Brazil fifth among all producing countries. Argentina ranks first in linseed output. Eighty per cent of all linseed entering international trade is produced in non-tropical Latin America. Nine-tenths of the world's coffee and two-thirds of its bananas entering international trade are grown in Latin America. Approximately one-third of the world production of cane sugar and cacao come from Latin America. Cuba is second and Brazil fourth among sugar cane growing countries. Brazil now holds second place in the citrus fruit output of the world. The Latin American area also accounted for about 10 per cent of the world's production of cotton and corn.

Venezuela is now the world's largest exporter and second largest producer of crude petroleum. Latin America supplied about two-thirds of world exports of this commodity in 1938. Brazil's manganese, iron and bauxite (aluminum) deposits, the last two largely undeveloped, are among the largest in the world. Her iron ore reserves are estimated to equal more than one-fifth of world reserves.[8] Latin America mines between one-fifth and one-fourth of all new copper, close to one-fifth of all tin, more than one-half of all antimony, about one-third of all

[8] U. S. Tariff Commission, *Mining and Manufacturing Industries in Brazil*, Washington, D. C., 1945, p. 23.

vanadium, and more than one-tenth of all tungsten and zinc.[9] Chile is the only important source of natural sodium nitrate in the world and the second largest producer of copper, with 37 per cent of the world's copper reserves.[10] Close to one-half of the world's silver output is in Latin America, with Mexico the world's leading producer. Colombia is the world's chief source of platinum, Brazil of rock crystal, Peru of bismuth and vanadium.[11]

The importance of Latin America as a market for United States exports has greatly increased during the last half century, both in absolute and relative terms. In the period 1896 to 1900, an average of 8.7% of our total exports went to Latin America, in comparison with 76.7% taken by Europe. Since then the share of Latin America has increased steadily while that of Europe has shrunk as steadily. In the period 1936–40 Latin America absorbed 18.9% of our total exports and Europe 41.4%. The greatest increase was in South America (from 3.1% to 9.9%)—no doubt because of the more active economic development of some countries of that continent, in comparison with those of the Caribbean region. However, the development of our exports to all of Latin America is evidence of the remarkable economic growth of the entire area during this period.

On the import side, no such expansion can be noted, in comparison with other areas. In 1896–1900 we obtained 23.5% of our total imports from Latin America (10.3% from Mexico, Central America and the West Indies republics and 13.2% from South America). In 1936–40 the corresponding figure was 24.8% (from the former area 11.4%, from the latter 13.4%). During this time our imports from Europe decreased relatively from 52.6% to 28.9% while our purchases from Asia, characteristically, doubled from 14.6% to 29%.

Commercial relations between Latin America and Europe, as a whole, have been relatively less intensive. Of Europe's aggregate imports in 1938, 10% came from Latin America, while of her exports only 7% went to Latin America. This latter percentage, however, was about equal to the share of all of Anglo-Saxon America in Europe's export

9 Bernhard B. Goldner, "Latin America's Strategic Metals and Their Relationship to the United States War Program," *Commercial Pan America* (Pan American Union), XI, 3, March, 1942, p. 38.

10 U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Washington, D. C., 1942, p. 55. (Report No. 146, Second Series.)

11 Most of the foregoing statements refer to the period immediately preceding World War II.

trade. By far the greater part of the foreign trade of all European countries is, of course, with other countries of the same continent.

Latin America was a more important customer of Great Britain than the United States. In 1938, she sold almost twice as much to Latin America as to this country. (Table XI.)

TABLE XI
RELATIVE IMPORTANCE OF THE LATIN REPUBLICS OF NORTH AMERICA AND SOUTH AMERICA TO U. S. FOREIGN TRADE

The following percentages of total U.S. exports went to:	Mexico, Central America, and the West Indies	South America
1921–25 (average)	10.1	6.8
1926–30 (average)	8.4	9.4
1931–35 (average)	8.0	7.0
1938	8.5	9.7
1940	8.5	10.8
The following percentages of total U.S. imports came from:	**Mexico, Central America, and the West Indies**	**South America**
1921–25 (average)	14.9	12.2
1926–30 (average)	11.4	13.5
1931–35 (average)	10.3	14.3
1938	11.4	13.4
1940	9.8	15.0

As can be seen from this, the relative importance of the United States trade with South America, in comparison with the Caribbean area, has increased. This was even more the case during the years following 1940, due to requirements of the war emergency.

In the average of the period 1910 to 1937, Latin America as a whole had a slightly favorable balance of trade with the United States. From 1938 to 1940, however, Latin American purchases exceeded her sales in this country.

Indicative of the prevailing character of the Latin American economy as a primary, extractive economy is a comparison of the structure of United States commerce by commodities, with South America and Europe. The following figures show clearly the predominance of finished manufactured goods among our exports to South America and the overwhelming prevalence of crude raw materials and unprocessed foodstuffs among our imports from that area. The figures (Table XII) are average percentages and apply to the period 1936–1940.

TABLE XII

STRUCTURE OF U. S. COMMERCE WITH SOUTH AMERICA AND EUROPE, BY COMMODITY CLASSES

Commodity Classes	U.S. Exports To South America	U.S. Exports To Europe	U.S. Imports From South America	U.S. Imports From Europe
Crude materials	2.8	26.0	36.2	17.6
Crude foodstuffs	.8	5.3	43.9	1.8
Manufactured foodstuffs	3.4	7.2	4.5	17.3
Semi-manufactures	16.1	20.5	14.5	29.0
Finished manufactures	76.9	40.9	.9	34.3
Total	100.0	100.0	100.0	100.0

In 1939, the leading commodities the United States bought from Latin America were coffee ($136.2 million, or 27.5 per cent of the total of $495.8 million imports from Latin America), sugar ($75 million), copper ($30 million, of which $28 million were for refining and re-export), bananas ($28.8 million), petroleum and its derivatives ($23.3 million), hides and skins ($19 million), flaxseed ($18.3 million), wool ($17.1 million), cacao ($13.2 million), nitrate and iodine ($11.4 million), and canned beef ($8.6 million).

The principal United States export commodities for Latin America in the same year were automobiles, including parts and accessories ($69.9 million, or 12.4 per cent of the total of $562.5 million), iron and steel products ($61.6 million), industrial machinery ($56.3 million), textile manufactures ($41.8 million), chemicals and related products ($39.2 million), rice, flour, and other vegetable products ($34.5 million), electrical machinery and apparatus ($34.1 million), and crude petroleum and refined oils ($28.5 million).

United States capital investments in Latin America, both direct and portfolio, amounted in 1940 to $4,012,000,000 or approximately 35% of all United States investments abroad. They exceeded United States investments in Canada by almost $300,000,000. Of the total amount, the great majority, $2,513,000,000, was invested in South America, although Cuba had the largest amount of such investments of any one country ($750 million). Direct United States investments (holdings in foreign enterprises partly or wholly controlled by North American interests) in Latin America in 1940 were estimated at $2,771,000,000, or almost 40% of all United States direct investments abroad.

At the outbreak of the Second World War, British investments in this

area still exceeded investments from North America, as Britain had entered this field much earlier and on a larger scale than the United States. The total of British capital in Latin America was estimated in 1939 as £1,128 million (about $5 billion) or approximately 23% of all British capital invested abroad, including the colonial empire. Characteristically, almost two-thirds of all British investments in this area were in Argentina and Brazil. The relative importance of these investments for Britain becomes evident when they are compared with those in the colonial empire (£838 million), in Australia and New Zealand (£651 million), in Canada (£500 million) and in the United States (£220 million). Needless to say that the Second World War has brought profound changes in this respect.

3. *Changes Caused by the Second World War*

The outbreak of the war in Europe in 1939 immediately caused *serious dislocations in the economy of Latin America.* It meant the loss of virtually all sales to and supplies from Germany and later Italy and all countries occupied by those two powers—in other words, most of the continent of Europe. It also meant that Great Britain had to suspend most of her exports to Latin America because she needed her entire output for war purposes. These developments are clearly reflected in the statistical table (Table XIII) showing the development of Latin America's foreign trade during World War II, by principal areas. On the other hand, Britain was in desperate need of Latin American food and raw materials but was unable to pay for them in cash or in form of exports. The only way in which the British could pay was through their capital holdings in Latin American countries and this led to the liquidation of an important part of British-owned securities in the form of government bonds as well as stock of private business enterprises, chiefly in such countries as Argentina, Brazil, and Uruguay. This well-known process, in return, had an important effect on Britain's position in the world economy of the postwar period because it meant the loss of an important item of "invisible exports" for the British balance of payments and thus forced Britain either to curtail vital imports or to increase her commodity exports substantially over their prewar level.

At the same time *Latin America became more dependent than ever on the United States* as the only remaining large-scale supplier. Thus, in 1940 52.9% and in 1941 62.1% of Latin America's imports were supplied by the United States, compared to 33.9 per cent in 1938. Exports from Latin America to the United States increased also, though less. Thus the

TABLE XIII

DEVELOPMENT OF LATIN AMERICA'S FOREIGN TRADE DURING WORLD WAR II BY PRINCIPAL AREAS, IN PERCENTAGES

Latin American Re-publics	Total	Canada	U.S.A.	Latin Am. Re-publics	United Kingdom	Conti-nental Europe	USSR	Africa	Asia	Oceania	Other Countries
Exports											
1936–38 Average	100	1.4	32.0	5.7	18.0	30.0	(x)	.5	1.9	.1	9.8
1939	100	1.0	36.0	5.6	18.0	28.0	(x)	.7	2.3	(x)	8.1
1940	100	1.8	47.0	7.8	18.0	13.0	.2	1.1	4.6	(x)	7.1
1941	100	2.2	57.0	10.2	13.4	3.0	.5	.8	3.5	(x)	8.9
1942	100	1.1	54.3	14.6	14.7	4.9	.3	2.2	.1	.4	6.9
1943	100	.6	52.6	13.4	15.6	3.2	(x)	3.9	(x)	.2	10.2
1944	100	1.2	50.9	15.4	16.1	4.2	.2	1.3	.1	.1	10.5
1945	100	1.3	49.2	16.6	11.8	8.6	.1	1.4	.4	(x)	10.4
Imports											
1936–38 Average	100	1.1	32.9	9.6	13.1	34.7	(x)	.2	5.9	.1	2.1
1939	100	1.2	39.8	8.9	11.1	31.3	(x)	.3	4.9	(x)	2.3
1940	100	1.8	52.9	11.9	11.6	11.9	(x)	.2	6.4	(x)	3.1
1941	100	2.0	62.1	13.4	8.5	4.6	(x)	.1	5.1	.2	3.9
1942	100	1.6	56.0	22.9	8.1	5.5	(x)	.3	2.9	(x)	2.6
1943	100	1.5	54.2	27.6	7.6	4.3	(x)	.7	1.7	.1	2.3
1944	100	1.5	59.2	27.3	3.3	3.8	(x)	.7	1.9	.4	1.9
1945	100	1.9	58.5	25.6	3.6	6.1	(x)	.9	1.4	.3	1.5

(x) Less than 1/10 of 1%

adverse trade balance with the United States for Latin America which had been 33 million dollars in the first nine months of 1939, immediately before the outbreak of the war in Europe, expanded to almost 90 million dollars in the same period of 1940.

Consequently, surpluses of export commodities normally shipped to Europe were mounting in Latin America, while manufactured goods formerly bought in Europe were scarce. Thus there arose in that early period of the war two pressing problems: First, how was Latin America to export more to the United States and to buy its essential necessities here, thus overcoming at least part of the unfavorable effects caused by the war; and second, what attitude to take if Germany should win the war, as it seemed quite possible in 1940 and 1941, and then should proceed to organize the whole of Europe under her control and to exercise tremendous economic and political pressure on the comparatively weak countries of Latin America?

A variety of suggestions were offered at that time for the solution of these problems, among them the creation of an Inter-American Trade Cartel under the leadership of the United States which would have provided a central planning and bargaining agency for the trade of all western hemisphere nations with the outside world. However, this idea was not enthusiastically received by many Latin Americans who feared that it would deliver their countries entirely into the hegemony of the United States.

Another project which died in an early stage, but whose revival is now being urged by some Latin Americans, was that of an Inter-American Bank. However, the lending funds of the Export-Import Bank of Washington, D. C., were greatly increased; and new organizations were created, such as the Inter-American Financial and Economic Advisory Committee in 1939, the Inter-American Development Commission, with national commissions in all American republics, the American Society of Agricultural Sciences, and the Inter-American Maritime Conference, all in 1940.

Stabilization fund credits were granted to Latin American republics by the United States Treasury Department to help them stabilize their currency in relation to the dollar, in cases of unfavorable balance of payments.

Perhaps the most significant step taken in that period, which still survives, was the Inter-American Coffee Convention. Sponsored by the Inter-American Financial and Economic Advisory Committee and administered by the Inter-American Coffee Board in Washington, it was

signed first in December, 1940, between the United States and all fourteen coffee-exporting nations of Latin America. It was to prevent catastrophic price declines, due to the loss of the important European coffee markets, by setting export quotas. In spite of certain difficulties and tensions it can be said that the principal objective was accomplished. On the whole, export volumes were maintained satisfactorily and increased coffee prices in the United States compensated Latin American exporting countries for loss of exports to Europe.

Similar commodity agreements were planned for other staple goods but did not materialize, partly because cooperation of exporter and consumer countries outside of the Western Hemisphere would have been necessary, but could not be obtained.

With the active entrance of Japan and the United States into the Second World War, the economic situation of Latin America changed in several respects. The United Nations lost important sources of strategic raw materials in the Far East, such as rubber, petroleum, tin, quinine, vegetable oils, hemp, manganese, tungsten, and antimony. Latin America became one of the few remaining areas in the world which could supply these commodities to a certain extent and intensive efforts were made to increase the output of these and other strategic and critical materials in Latin America to the utmost. This meant not merely the expansion of mines and plantations. It included in almost all cases the building or improvement of means of transportation and communication, many of them in isolated areas, the moving of thousands of employees and laborers, the building of entire settlements, schools, hospitals and other health facilities, and the provision of facilities for supplying workers with adequate consumer goods at attractive prices. A whole network of inter-American agencies, governmental, semi-official, and private, became necessary for the financing, organization and administration of these activities.

Almost equally important were projects designed to supply Latin America with capital goods and consumer goods in order to avoid excessive hardships to the masses of the peoples which might have created situations dangerous to the interests of the United Nations in wartime. The United States found it necessary to allocate scarce supplies to Latin America on a basis similar to that applying to this country. Many commodities formerly furnished by Europe had now to be furnished by the United States. These included iron and steel, textiles, coal, wood pulp and paper, dye-stuffs, medicinals, and industrial chemicals. Foodstuffs, especially flour and wheat for the tropical countries, agricultural

machinery, and implements and vehicles were other important items. The scarcity of shipping space was an acute problem.

Naturally, all this created a greater economic interdependence between the United States and Latin America than ever before. This was particularly marked in such countries as Mexico where the percentage of imports from the United States rose from 57.7% of total imports in 1938 to 82.4% in 1945, while the percentage of exports to the United States rose from 48.4% of total exports in 1938 to 84.5% in 1945. For the whole of Latin America, the percentage of trade done with the United States rose from a prewar one-third to more than one-half of the total.

Even so it became obvious that the Latin Americans had to produce a much larger amount of manufactured commodities in order to make up for the imports of such commodities from foreign countries which they were now unable to secure. The urgent need for such goods coupled with the absence of competition from abroad created a tremendous impulse to the growth of domestic industries. In most of the countries the governments encouraged private business men to start new industries or to expand existing ones, by means of direct or indirect subsidies. In other cases, the governments themselves established such industries. United States government loans were freely contributed for this purpose. In some cases the entire equipment of industrial plants in the United States was dismantled and shipped for installation in Latin America.

Such projects were by no means limited to the production of basic consumer goods. They included in certain cases the fulfillment of ambitious dreams which had been cherished for a long time by most Latin Americans in public life, such as the expansion of iron mining and steel production in Brazil, Chile, and Peru and motor factories in Argentina, Brazil, and Mexico.

An important factor in this development were anti-Fascist refugees from Europe who contributed valuable technical knowledge, business experience and, in some cases, capital.

Thus in Argentina, total industrial employment and the physical volume of industrial and mining production almost doubled between 1935 and 1946. The proportion of manufacturing industries in the national income rose from 35.1 per cent in 1935 to 46.2 per cent in 1946. The total value of Brazil's industrial production, which had been 3 billion cruzeiros in 1920, rose to over 25 billion in 1940 and over 31 billion in 1943. In the last decade, industrial production in that coun-

try surpassed her agricultural output in value. Pig iron production in Brazil increased from 98,101 tons in 1937 to 350,000 tons in 1946. Of this latter amount the new Volta Redonda plant produced almost 40 per cent. In Mexico, the total volume of industrial production increased almost three times between 1930 and 1946.

The dislocation of regular trade relations also caused considerable *intensification of intra-Latin American trade*. In prewar times very few Latin American countries traded with each other to any substantial extent. Similarity of natural conditions, commercial policies of the colonial period, and the absence of any large degree of industrialization had orientated their trade toward the more highly industrialized and diversified economies of Europe and North America rather than toward each other. The few exceptions to this rule included trade between Argentina and Brazil (wheat for coffee) and between Chile and Peru (coal for sugar). Now, however, Argentine dairy products, meat, textiles, and even electrical supplies, were in demand in the tropical countries of the Caribbean; Brazilian silk and nylon products and textiles found a ready market in most of the other countries of the hemisphere; so did Chilean and Argentine wines and fruit. For the whole Latin American group, exports to other countries of that group increased from 6% of total exports in 1938 to 16.6% in 1945; intra-Latin American imports increased from 9% of total imports in 1938 to almost 28% in 1944.

However, the prices of these products were as a rule much higher and their quality lower than those of the peacetime products of Europe, the United States, and Japan, which they replaced. Thus, with the reestablishment of world-wide trade relationships, many of those gains in intra-Latin American trade turned out to be temporary. The value of cotton textiles (the leading manufactured export commodity) exported by Brazil decreased from 1,397 million cruzeiros in 1945 to 703 million cruzeiros in 1946; manufactures of rubber decreased from 107 million to 77 million cruzeiros in the same period. However, administrative export restrictions as part of the fight against the increase in living costs within the country were partly responsible for these declines.

World War II also brought an *intensification of commercial and other relations between Canada and Latin America*. Previously, Canadian trade had been considerable only in parts of the Caribbean, notably the British possessions, but also in a few of the independent republics served by Canadian steamship lines and banks. With the temporary loss of traditional sources of supply, Latin America turned to Canada for such articles as paper, lumber, wheat flour and cereals for the tropical countries, electrical supplies, tires, and machinery. The remarkable growth of

manufacturing and heavy industries in Canada during the last war enabled her to meet part of that demand while, on the other hand, expanding even more her purchases in Latin America of articles formerly obtained from Far and Middle Eastern areas (fibers, vegetable oils, ores, petroleum, cotton, etc.). Thus the export of Canadian goods increased from $17,725,000 in 1938 to $57,800,000 in 1945. (However, this was only 1.8% of Canada's total exports.) Canada's biggest Latin American customer was Brazil, with 1946 imports amounting to 87,500 tons, as against 10,368 tons in 1938.

The Canadians are resolved to maintain these gains and to consider them as a stepping stone to larger ones. They have become conscious of the enormous potential value of economic ties with the maturing economies of the southern part of the hemisphere. Permanent diplomatic and commercial missions have been established between the Dominion and an increasing number of republics to the south. Trade agreements have been signed. Canadian steamship services are being developed. Canadian shipyards are building vessels for Latin American governments. A Canadian Inter-American Association was formed in Montreal in 1942 and is carrying on active propaganda in the South. Canadian-Latin American Cultural Institutes operate now in various countries. In this connection, the existence of a strong "Latin," that is, French-speaking, Catholic minority in Canada is of some importance for the furtherance of not only "cultural" but also commercial ties. However, Canada has not joined any of the inter-American economic organizations nor has it expressed interest in becoming a member of the Pan American Union.

Another novel but largely temporary development was a rather brisk trade across the Southern Atlantic between the Union of South Africa on the one side and Argentina and Brazil on the other, due to the fact that South Africa's normal source of supplies, Great Britain, was unable to satisfy South Africa's needs during the war.

The over-all result of these changes during the second part of the war can be summarized thus: United States cash-purchase exports to Latin America increased from an annual average of $711 million in 1939–1941 to $1,228 million in 1946—a remarkable accomplishment considering the circumstances, even if account is taken of price increases.[12]

[12] In evaluating these figures and the ones presented on the following pages, and in interpreting their real significance to the war effort, allowance must be made for the steep price increases which occurred during the period under review. As a rule, such increases were larger for Latin American exports than for United States exports, during the war years. Reference should be made to the index numbers of wholesale prices and of the cost of living, tables XIX and XX, in the appendix of this study. These show price rises between 1939 and 1947 in the Latin American countries for which official index numbers are available, and in the United States.

TABLE XIV

UNITED STATES EXPORTS (INCLUDING LEND-LEASE AND RELIEF)—DISTRIBUTION BY LEADING COUNTRIES AND AREAS

Country and Area	1936–1938 Annual Average Million $ U.S.	1936–1938 Annual Average % of Total Exports	1939–1941 Annual Average Million $ U.S.	1939–1941 Annual Average % of Total Exports	1942–1944 Annual Average Million $ U.S.	1942–1944 Annual Average % of Total Exports	1945 Million $ U.S.	1945 % of Total Exports	1946 Million $ U.S.	1946 % of Total Exports
Total	2,967	100.0	4,115	100.0	11,767	100.0	9,803	100.0	9,742	100.0
Latin America	485	16.3	711	17.3	862	7.3	1,263	12.9	2,100	21.6
Canada	454	15.3	732	17.8	1,406	11.9	1,178	12.0	1,442	14.8
United Kingdom	499	16.8	1,051	25.5	4,092	34.8	2,189	22.3	855	8.8
Continental Europe*	678	22.9	447	10.9	245	2.1	1,448	14.8	2,853	29.3
U.S.S.R.	49	1.7	83	2.0	2,631	22.4	1,838	18.8	358	3.7
Africa and Near East	160	5.4	291	7.1	1,213	10.3	630	6.4	619	6.4
Far East	557	18.8	670	16.3	1,135	9.6	1,093	11.2	1,328	13.6
All Others	85	2.9	130	3.1	183	1.5	164	1.7	187	1.9
United States Cash-Purchase Exports—Distribution by Leading Countries and Areas										
Total	2,967	100.0	3,868	100.0	2,901	100.0	3,759	100.0	7,965	100.0
Latin America	485	16.3	711	18.4	790	27.2	1,228	32.7	2,095	26.3
Canada	454	15.3	728	18.8	1,219	42.0	1,122	29.9	1,439	18.1
United Kingdom	499	16.8	860	22.2	284	9.8	293	7.8	737	9.3
Continental Europe*	678	22.9	446	11.5	86	3.0	386	10.3	1,736	21.8
U.S.S.R.	49	1.7	83	2.2	41	1.4	4	.1	53	.7
Africa and Near East	160	5.4	259	6.7	202	7.0	351	9.3	593	7.4
Far East	557	18.8	652	16.9	141	4.9	230	6.1	1,126	14.1
All Others	85	2.9	122	3.3	138	4.7	146	3.8	185	2.3

TABLE XIV (*continued*)

United States Imports—Distribution by Leading Countries and Areas

Country and Area	1936–1938 Annual Average Million $ U.S.	1936–1938 Annual Average % of Total Imports	1939–1941 Annual Average Million $ U.S.	1939–1941 Annual Average % of Total Imports	1942–1944 Annual Average Million $ U.S.	1942–1944 Annual Average % of Total Imports	1945 Million $ U.S.	1945 % of Total Imports	1946 Million $ U.S.	1946 % of Total Imports
Total	2,489	100.0	2,762	100.0	3,349	100.0	4,136	100.0	4,935	100.0
Latin America	542	21.8	715	25.9	1,296	38.7	1,623	39.2	1,760	35.7
Canada	345	13.9	439	15.9	1,000	29.9	1,128	27.3	883	17.8
United Kingdom	174	7.0	147	5.3	108	3.2	88	2.1	156	3.2
Continental Europe*	507	20.4	250	9.1	100	3.0	253	6.1	535	10.8
U.S.S.R.	25	1.0	25	.9	34	1.0	54	1.3	100	2.0
Africa and Near East	97	3.9	168	6.1	277	8.3	448	10.8	490	9.9
Far East	758	30.5	950	34.4	432	12.9	724	10.3	906	18.4
All Others	41	1.6	68	2.4	102	3.0	118	2.9	105	2.1

*Exclusive of the U.S.S.R.

Source: *Foreign Commerce Weekly*, vol. XXVII, No. 7, May 17 1947

Latin American supplies to the United States increased even more—from an annual average of $715 millions in 1939–41 to $1,623 millions in 1945. However, price increases in this period were on the whole more marked in Latin America than in the United States. In contrast to our exports to other parts of the world during the war years, the vast majority of our shipments to Latin America were commercial transactions, not lend-lease supplies. Thus Latin America became the largest commercial customer of the United States in 1945 and 1946. In 1945 the American republics absorbed almost one-third and in 1946 more than one-fourth of this country's cash-purchase exports. Since Pearl Harbor Latin America has also been the main area furnishing imported supplies to this country, with a record of 39.2% of the total in 1945. These developments, in comparison with United States trade with the other major world areas during the war period, and in the years immediately preceding and following it, are set forth in some detail in the Table XIV.

Interesting differences in the development of our trade with individual republics to the south since the entrance of this country in the war can be found in studying Tables XV and XVI. The relatively best showing in increasing supplies of strategic materials during this period was made by Brazil, Cuba, Haiti, Mexico, Uruguay, and Venezuela. (Of course, the small peacetime amount of United States purchases in countries like Uruguay and Haiti should be remembered. Emergency purchases of wool, hides and skins, and meat in the former and of fibers in the latter country were chiefly responsible for the rise.) Little change can be noted in the supplies obtained from Bolivia and Chile, in comparison with the early period of the war.

On the export side, the increases were much more even, although more than usual to Brazil, Venezuela, Mexico, and Colombia (the first two countries outstanding suppliers of vital commodities, the last two particularly in need of consumer goods from the United States). The only decrease, until 1945, was to Argentina. This is explained by Argentina's refusal to adhere to Hemisphere defense measures, which made that country less eligible than others for the assignment of preciously scarce export commodities. In 1946, when export controls were discontinued, Argentine purchases in this country increased five times over 1945.

Naturally, the structure of our commerce with Latin America underwent important changes during the war years. Latin American exports of bananas, cacao, wheat and other foodstuffs considered non-essential,

TABLE XV

Development of United States Imports from the Latin American Republics Since Pearl Harbor—in Millions of U.S. Dollars

	1942	1943	1944	1945	1946
Mexico	123.9	192.2	204.4	230.6	232.7
Guatemala	15.5	16.2	18.2	24.2	31.2
El Salvador	11.9	14.5	14.5	16.9	15.2
Honduras	5.3	4.9	7.2	9.0	9.4
Nicaragua	4.6	5.1	6.0	5.0	6.4
Costa Rica	6.0	8.9	7.6	10.9	10.6
Panama	2.7	1.5	1.8	2.6	5.8
Cuba	161.0	291.8	386.9	337.6	323.1
Haiti	6.1	8.0	12.5	15.9	17.7
Dominican Republic	8.4	11.7	16.7	14.4	20.2
Venezuela	20.2	25.8	54.4	86.6	119.6
Colombia	77.8	98.4	104.7	102.8	156.5
CARIBBEAN REGION	443.4	679.0	834.9	856.5	948.4
BRAZIL	165.2	228.5	292.7	311.2	407.9
Ecuador	8.7	13.7	15.2	14.0	13.2
Peru	20.6	26.4	30.8	33.6	32.3
Bolivia	26.0	32.5	38.3	27.9	24.0
Chile	139.9	141.4	153.6	137.1	83.8
SOUTH AMERICAN WEST COAST	195.2	214.0	237.9	212.6	153.3
Argentina	149.9	144.9	177.0	170.0	194.2
Uruguay	20.6	48.6	47.6	66.1	48.1
Paraguay	3.0	3.5	3.6	6.2	3.8
LA PLATA REGION	173.5	197.0	228.2	242.3	246.1
LATIN AMERICA	977.3	1,318.5	1,593.7	1,622.6	1,755.7

Source: United States Department of Commerce.

or for which transportation was not available, had to be curtailed; but this was more than made up by the increase in the production and shipment of such vital commodities as ores, hemp, vegetable oils and waxes, wool, cotton goods, rubber, cinchona, lumber, industrial diamonds, and others. Venezuela's exports of petroleum and its derivatives almost doubled in value between 1943 and 1945.

TABLE XVI

Development of United States Exports To the Latin American Republics (Including Lend-Lease Goods) Since Pearl Harbor—in Millions of U. S. Dollars

	1942	1943	1944	1945	1946
Mexico	147.7	186.3	264.3	308.7	504.4
Guatemala	9.3	10.2	10.7	14.6	23.1
El Salvador	5.5	7.0	6.7	8.6	13.7
Honduras	6.0	6.1	9.0	10.3	18.6
Nicaragua	4.4	7.1	7.0	8.5	12.1
Costa Rica	7.2	10.7	12.6	16.0	22.6
Panama	28.1	35.1	23.0	33.7	46.4
Cuba	133.2	133.9	168.1	195.7	272.1
Haiti	5.2	7.4	9.3	9.6	12.5
Dominican Republic	9.3	12.4	14.1	18.8	29.4
Venezuela	47.1	44.7	87.1	136.7	211.5
Colombia	30.4	46.3	60.4	88.2	145.6
CARIBBEAN REGION	433.4	507.2	672.3	849.4	1,312.0
BRAZIL	105.0	156.3	218.2	218.6	356.3
Ecuador	8.9	11.0	14.4	15.2	22.2
Peru	27.5	34.4	36.9	42.5	63.3
Bolivia	11.0	14.0	12.4	14.2	21.7
Chile	41.2	42.9	51.8	51.8	77.2
SOUTH AMERICAN WEST COAST	88.6	102.3	115.5	133.7	184.4
Argentina	71.9	31.8	29:1	38.7	193.1
Uruguay	17.3	13.7	18.6	29.4	47.7
Paraguay	1.7	1.9	1.9	2.5	5.5
LA PLATA REGION	90.9	47.4	49.6	60.6	246.3
LATIN AMERICA	717.9	813.2	1,055.6	1,262.3	2,099.0

Source: United States Department of Commerce.

Probably no country profited more from World War II, in economic terms, than Argentina. Her balance of trade reached records since 1943, especially in 1946, although her exports decreased in terms of quantity. The value of her exports per ton climbed from 137 pesos in 1939 to 480 pesos in 1946; the value per ton of imports increased only from 137 pesos to 280 pesos in the same period.

A similar development can be noted in Brazil. The average price of that country's exports per ton was 1,296 cruzeiros in 1939 and 4,985 cruzeiros in 1946. The average import price per ton rose less during the same period, from 1,057 cruzeiros to 2,574 cruzeiros. Brazil's volume of exports in 1946 was nearly twice that of 1928 (3,659,516 tons against 2,075,048 tons); in terms of value, exports increased approximately four and a half times, from Cr$3,970 millions to Cr$18,243 millions. On the other hand, Brazil's volume of imports in 1946 was slightly below that of 1928 while import values had increased about three and a half times, from Cr$3,695 millions to Cr$13,029 millions.

Several countries also made considerable progress in combating the evils of the one-crop system by diversification of their economies. In this respect, Brazil is probably leading. In 1928, 80 per cent of her exports consisted of food stuffs and 71.5 per cent of coffee alone. In 1938 the situation had been remedied to the extent that food stuffs accounted for only 62 per cent (coffee for 45 per cent) and raw materials for 37 per cent. This included cotton, now second among all export commodities, with 18.2 per cent of the total, as against 0.9 per cent in 1928. In 1946, food stuffs were responsible for only 51 per cent (coffee for only 35.3 per cent), raw materials for 41.5 per cent, and manufactured articles for 7 per cent. These latter had been practically non-existent in the exports of 1928 and negligible (0.35 per cent of the total) in 1938.[13]

13 "Brazil's Foreign Trade 1928–1946." *Brazil Trade Journal*, Conselho Federal de Comércio Exterior, Rio de Janeiro, II, 1, 1947, pp. 1–4.

II. PROBLEMS OF POST-WAR RECONVERSION IN LATIN AMERICA

Throughout the war years Latin America had a substantial favorable balance of trade in relation with the United States and the rest of the world. There resulted a large accumulation of dollar exchange which was not readily convertible into goods because of the shortage of outside supplies and the insufficient domestic production of consumer goods. Employment was at a peak. Monetary circulation surpassed any previous record. This in turn stimulated inflation in all countries. The general price level rose far beyond wages and salaries. Price control measures proved utterly inadequate and ineffective almost everywhere.[1]

TABLE XVII
GOLD AND FOREIGN EXCHANGE HELD BY CENTRAL BANKS
DEC., 1939—JULY, 1945[2]
(In millions of units of respective currencies)

	Dec. 1939	July, 1945	% increase
Argentina	1,395	4,229	203
Bolivia	157	a 1,272	710
Chile	171	533	212
Colombia	42	287	583
Ecuador	41	400	876
El Salvador	16	70	337
Mexico	b 172	701	308
Peru	75	125	67
Uruguay	c 108	c 285	164
Venezuela	d 157	533	239

a June 1945
b Mar. 1941
c Gold and silver only
d June 1941

1 Seymour E. Harris in 1944 estimated, "not without the most serious reservation . . . that money national incomes [in Latin America since 1939] have risen about one-half as much as in the United States and prices about twice as much. For a *given amount* of expansion of output, their price rise has been four times as great." (*Economic Problems of Latin America*, New York: McGraw-Hill, 1944, p. 19.) Since then the rise of the general price level has been even more accentuated. See also Table XX in the appendix of this study.—More recently, the Department of Economic Affairs of the United Nations came to the conclusion that "there was no effective price control in Latin America, because there was no effective rationing of consumptive goods." In Chile and Mexico "the inflationary pressure was caused to a great extent by budget deficits and expenditures on development. . . . It should be emphasized that even official reports mention that the [price] indices understate the degree of price increases." *Survey of Current Inflationary and Deflationary Tendencies*, Lake Success, N.Y., September, 1947, pp. 80, 83. (Series A—No. 2.)

2 From C. K. Ludewig, "Inflation and Deflation Factors in Latin America, Wartime and Postwar," *Commercial Pan America* (Washington, D. C.), XV, 1–2, 1946, p. 19.

Currency circulation in Brazil expanded from a little over 5 billion cruzeiros in 1940 to more than 20 billion cruzeiros early in 1947. During the same time the cost of living rose by more than 300% and the price level of food alone by almost 400%. Bank deposits in Brazil increased from 12,523 million cruzeiros in 1939 to 49,023 million cruzeiros in 1946.

Monetary circulation in Uruguay increased from 112 million pesos in December, 1941 to 210 million pesos at the end of 1946.

In Mexico, currency circulation increased by 175 per cent between December, 1941, and September, 1945.

Extraordinarily drastic rises of the cost of living, both during and since the war, took place in Bolivia, Chile, Mexico, and Peru. In July, 1947, the office workers of a United States controlled copper mining company in Chile struck. They demanded not only salary raises but also payment of salaries in United States currency to place them beyond the reach of the fast advancing inflation in their own country.

In several countries, retraction of retail business became obvious in 1947, partly because of "buyers' strikes" against inflated prices and partly owing to sheer inability of the public to pay such prices.

In view of these facts, it is difficult to say whether Latin America as a whole has derived lasting benefits from the Second World War. Some competent observers have rather forcefully expressed the opinion that most of the poor people became poorer while the few wealthy people became wealthier and politicians and influential holders of public offices had many opportunities to add to their fortunes.[3] Many of the benefits which the economies of these countries did derive from the war, especially in its second half, after the entrance of the United States, were

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[3] See, for instance, Willy Feuerlein and Elizabeth Hannan, *Dólares en la América Latina*, México, D. F.: Fondo de Cultura Económica, 1944, pp. 192–93. Also the remarkable *Informe a la Nación* of Dr. Leopoldo N. Chávez, Ministro de Previsión Social y Trabajo, of Ecuador (Quito, Ecuador: Imprenta del Ministerio de Gobierno, 1943, pp. 11–13): "There is no salary or wage sufficient to meet the indispensable needs of the great majority of Ecuadorians. It can well be asserted that 95 per cent of the inhabitants of the Republic live in the most pressing poverty, undergoing hunger, deprivation, and sickness, without even the consolation that this situation will be remedied in the near future. . . . In contrast to these 95 per cent, at least, of Ecuadorians who live in misery, the rest of our population lives in an atmosphere of plenty which perhaps it has never had before. . . . It cannot be denied that the business profits declared for the year 1942 exceed all limits of equity, in the face of the pauperism of our population. It would seem incredible that at this time, when the whole world is struggling to begin an era of justice, a small number of citizens absorb almost the entire national wealth and receive in only twelve months incomes of such magnitude that in many cases they represent in themselves a sizeable fortune." (Translated by the author.)

temporary and were limited to a small segment of the population, those prominently connected with commerce, industry, and government.[4]

It is, of course, true that Latin America was the only major area in the world which did not suffer any physical destruction or loss of manpower on account of the war (excepting the relatively few casualties of the Brazilian and Mexican forces which participated in the fighting). It is also true that Latin American productive facilities in certain fields expanded during the war, although not to any extent comparable to the expansion of the productive facilities in the United States during the same period.[5] However, it remains to be seen to what extent these gains will survive the extraordinary conditions created during the years of dislocation and interruption of regular trade relations.

In the years 1941 to 1945 the allied nations and particularly the United States found themselves in urgent need of strategic raw materials, many of which could be supplied in natural form almost only by Latin America. This forced the United States Government to offer the Latin American countries contracts in which we obligated ourselves to purchase certain minimum quantities of such commodities at specified prices, usually several times higher than those paid ordinarily, and over a definite period of time. It was thus possible to induce thousands of Latin Americans to shift from their regular occupations to such occupations as the gathering of rubber and cinchona, the collecting of oil-bearing nuts, the mining of ores, the planting and harvesting of hemp, etc.

With the return of more or less normal conditions this demand has disappeared. Our regular sources of those commodities, mostly in the Far East, will again be in a position to deliver the goods more cheaply, thanks to a more ample labor supply and more advanced production methods. We have to resume our purchases in the Far East—not only because of business considerations. Our failure to do so would result in large-scale unemployment with consequent social and political unrest in that important area as well as the loss of large North American and

4 "With all extenuating circumstances considered, my conclusion is that the rise of Latin American prices, which perhaps has recently averaged 15 per cent per annum . . ., has been too high. This has tended, given the rather weak bargaining position of labor and the current tax systems, to effect an undesirable redistribution of income and consumption." Seymour E. Harris, *op. cit.*, pp. 25–26.

5 "In the light of numerous production indices which cover but limited areas and which, in any case, cover only part of the economies (since the economies are to a great extent on a non-monetary basis) one might perhaps estimate very roughly that the expansion of output in Latin America [between 1939 and 1944] at the very most has been of the order of about 20 per cent, as compared with an expansion of 75 per cent in the United States." Seymour E. Harris, *op. cit.*, pp. 18–19.

European capital investments. Furthermore, synthetic production of rubber, quinine and nitrates will most likely be continued in this country and elsewhere, partly for military reasons. Thus prospects for these industries in Latin America are decidedly discouraging. It is quite unlikely that Latin American (and that means chiefly Brazilian) rubber will be able to compete on a free world market because of its high production costs. These costs are due to the absence of plantations and the shortage of a skilled labor supply. As to cinchona, the raw material of quinine, a few plantations have been started quite recently in Latin America. It remains to be seen if they will be able to compete with the plantation economy of the Far East and the synthetic products. Bolivian tin ore is expensive to mine and to transport and of lower metal content than Far Eastern ore. Chilean natural nitrate has, ever since the First World War, fought a losing battle against the synthetic products, although it is still preferred for agricultural purposes.

In many cases, the United States during World War II stimulated Latin American sales of livestock (from Mexico), sugar (from Cuba), vegetables, fibers, cinchona, balsa, and others, through special commodity agreements, the reduction of import tariffs and the suspension of import quotas where they existed in peace time. After the period of acute shortages had passed, many such agreements were permitted to lapse and former tariffs were restored under "escape clauses." This is deeply resented by the Latin Americans. They accuse the United States of playing with the welfare of tens of thousands of humble folks in the countries of the south by taking advantage of them in times of need but abandoning them to the problems of difficult readjustment, shrinking production and unemployment as soon as they were not needed any more. They also complain that the prices the United States pays for Latin American products were not permitted to rise while production costs in Latin America have increased, as well as the prices of United States commodities sold to Latin American customers.

While our purchases in some Latin American countries continued to climb in 1946, in others they declined. (See table XV.) Thus, our imports from Chile shrunk from a peak of $153.6 millions in 1944 to $83.8 millions in 1946. From Bolivia we purchased in 1946 goods valued at only $24 millions, as against $38.3 millions in 1944.

The end of the war made at least some commodities available from abroad and immediately let loose a flood of rather indiscriminate buying of consumer goods at inflated prices. This resulted in abrupt increases in Latin American imports and in a substantial shrinkage of

Latin America's war time accumulations of foreign currencies. This happened at a time when Latin American countries were faced with a sudden reduction of their own war time stimulated exports of strategic commodities; when really needed capital goods were not yet obtainable abroad; and when modernization and readjustment of domestic production facilities were hampered by an acute shortage of building materials and machineries, expecially in agriculture and transportation.

The highly favorable balance of trade with the United States which Latin America was able to maintain through the war years changed to an unfavorable balance in 1946 when consumer goods and industrial supplies became more plentiful. The steep price increases which occurred in 1946 in important supplier countries, chiefly the United States, contributed to this. In 1947 we shall probably have an excess of exports over imports in our merchandise trade with Latin America in the record amount of $1.8 billions ($3,999 millions exports against $2,199 millions imports).[6] As an effect of this, foreign exchange controls or direct import controls have been renewed or intensified in most countries. Some countries have also restricted or blocked the exportation of certain foodstuffs and raw materials, as a price control measure designed to aid the domestic consumers and industries.

Thus Latin America is threatened with the loss of a great many of the gains she was able to make in her export trade during the last war. In addition, she faces the problem of how to regain and to expand her traditional market in Europe—in a Europe which has emerged from the war largely devastated and impoverished and which seems to be anxious to restrict its imports while intensifying its domestic production. Such countries as Germany, Austria and Italy were important purchasers of Latin American food and minerals. It will probably be a good many years before these countries can be expected to attain their prewar standing in this respect.

In other words, there is a distinct possibility that Latin American exports may decline for an indefinite period after the present frantic demand of starving populations has passed. To this must be added the widespread fear in Latin America, as in other parts of the world, that

[6] U. S. Department of Commerce estimate based on trade figures for the first quarter of 1947.—Mexico's total imports climbed from 2,614.5 million pesos in 1946 to an estimated 3,459.6 million pesos in 1947. At the same time, her total exports increased quite insignificantly, from 1,961.5 million pesos in 1946 to an estimated 2,179 million pesos in 1947. Thus there resulted an unfavorable trade balance of record size. (*Review of the Economic Situation of Mexico*, Banco Nacional de Mexico, No. 263, Oct., 1947, pp. 7–8.)

a business depression in the United States in the not distant future will cause severe reductions in Latin American sales to this country and, consequently, grave disturbances in Latin America. Under these circumstances it seems all the more important to the Latin Americans to pursue a policy designed to make their economies less dependent upon the products of foreign countries which, of course, can be paid for in the long run only with Latin American exports. Today the insistence on developing domestic industries in Latin America is stronger than ever. Those countries want not only to maintain the factories and plants established or expanded during the recent war years but they are bent upon an even more active and comprehensive development of their productive facilities. This happens at a time when the United States Government is making an appeal to the rest of the world to reduce the barriers to international trade by diminishing protectionist tariffs and by abolishing government subsidies, barter and compensation agreements, regional preferences, and other discriminatory arrangements. It is only too obvious that a great many of the recently created manufacturing industries in Latin America could not survive if such artificial stimuli were withdrawn.

There is now a tendency in those Latin American countries which have made relatively most headway toward industrialization to promote the sale of their manufactured goods in their smaller, less industrialized neighbor countries. Thus, Mexico looks toward the Central American republics, and Argentina and Brazil show signs of competing in Bolivia, Paraguay and Uruguay. Brazil hopes to become heir to part of the vast market for cheap cotton cloth formerly supplied by Japan. However, chances of success in peacetime are doubtful if Argentina and Brazil have to compete with industrially more powerful non-Latin American exporters—unless they can secure some form of preferential treatment.

There is now much interest in Latin America in the development of national merchant marines, as one means of reducing the "invisible imports" in the form of the payment of transportation charges to foreign companies. Brazil, Chile, and Peru who have had largely state-owned merchant marines for some time, are engaged in renewing their fleets. Argentina started a state-owned overseas merchant marine during the past war as an emergency measure and seems resolved to maintain and expand it. Three of the "Bolivarian" countries, Colombia, Venezuela, and Ecuador, recently formed a "Greater Colombian" steamship company, also under government auspices. Mexico and even small El Salvador have taken steps to acquire and operate ships of their own in

which they propose to carry part of their foreign trade to and from other countries.[7]

In search of means to alleviate their problems of reconversion several countries have appealed to the Export-Import Bank of the United States and to the new International Bank for Reconstruction and Development for loans. Between July 1, 1945, and March 31, 1947, credits authorized by the Export-Import Bank for development projects in Latin America amounted to $117.4 millions (against a total of $2,217.4 millions for all areas and purposes). Most of this had been granted to Brazil ($53.8 millions) and Chile ($47.4 millions).[8] In May, 1947, the United States and Mexico signed an agreement providing for a continuation of the $50 millions stabilization fund which has existed since 1941 and which Mexico needs now, more than ever, to avoid a devaluation of its currency in view of its unfavorable balance of payments. Since stabilization would not be effective without constructive long-term measures, Mexico was granted $93 millions for improvement of its means of transportation, public utilities, oil and steel industries. In addition to this, the Mexican government hopes to obtain additional funds, either from the United States or the International Bank, for large-scale projects of irrigation and other measures necessary for the expansion and intensification of the country's agricultural production.

The question could be posed whether Latin American currencies are not overvaluated at this time. This seems to be indicated by the drastic price rises and the present unfavorable trade balances in a number of countries. The governments are trying to correct these conditions by protectionist tariffs (some of which were raised recently or will be raised shortly), controls of foreign exchange, imports and exports, and foreign loans for the expansion of productive facilities. None of the countries has so far openly adopted currency devaluation as a way out.[8a] However, in some countries the black markets in currency and the operation of multiple exchange rates by official agencies act, to some extent, as devaluation.

Against official devaluation would speak the element of instability

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7 Nominally, Panama has the largest merchant marine of all Latin American countries. However, most of its vessels are owned by nationals and corporations of other countries and do not serve Panama. The only benefit which the country obtains from them is the payment of fees for registration.

8 *Federal Reserve Bulletin*, XXXIII, 7, July, 1947, p. 839.

8a However, the Confederation of Chambers of Commerce of Mexico in October, 1947 demanded currency devaluation as a means of export promotion. (*Journal of Commerce*, New York, Oct. 29, 1947.)

which any such measure introduces in both the domestic and international economy; the fact that it would be difficult to reconcile with the program of the International Monetary Stabilization Fund of which all Latin American republics are members, although devaluation within certain limits and under specific conditions is possible under the Fund's statutes; that it would increase the burden of foreign debt services and of the transfer of profits earned in Latin America; and that it would bring about additional price rises of imported goods and might thus cause further deterioration in the living standard of the masses of low income consumers.

In favor of devaluation would speak the probability that it would reduce imports and stimulate exports and tourist trade from the United States, thereby easing the balance of trade; it would provide additional protection and encouragement for domestic producers, particularly manufacturers; if sufficiently drastic, it would counteract black markets in currency; it would make foreign loans go farther, and might attract foreign capital investments, provided investors could be sure that devaluation was not to be repeated or adopted as an indefinite policy and that it would not create obstacles to the transfer of profits and interest payments.

It is impossible to say, at this time and in a general way, whether currency devaluation would be advisable. Detailed study of the present situation and of the future prospects of each national economy would be necessary which, of course, cannot be undertaken within the framework of the present short study. The following factors would seem to bear most importantly on the question: (1) The prospects for exports of Latin American commodities after the present transitory period of frantic demand for basic foodstuffs and industrial raw materials, not always backed by effective purchasing power, has passed, taking account also of the development of the productive capacity of Latin America's competitor countries; (2) the price trend for commodities which Latin America imports, especially those supplied by the United States; will a permanently high price level of United States products result from the present inflationary trend in this country, or will a depression cause drastic price declines? (3) the possibility after the end of the present period of reconstruction and readjustment, that a lasting disparity between low raw material prices and high prices of industrial equipment and manufactured goods may result, as was the case during part of the inter-war period; and (4) the question whether it will be

possible to establish strong international institutions for currency stabilization and the financing of long-term development projects which would remove the danger that currency devaluation, once adopted by one country, might release a "chain reaction" of similar measures by many other countries and thus provoke a ruinous competing race of devaluation.

Latin America's problems of postwar dislocation and readjustment had crystallized in the first half of 1947 to the extent that two important demands were increasingly voiced by representative spokesmen: First, the demand for a United Nations Economic Commission for Latin America, similar to the existing commissions for Europe and the Far East, which was presented by the Chilean delegate to the United Nations Economic and Social Council and which is now being studied. Second, the demand for inter-American economic agreements in aid of Latin America (a "Marshall Plan for Latin America") at the Inter-American Conference for Defense and Security which met in August, 1947, in Rio de Janeiro. The chief claims of the Latin Americans at this juncture may be summarized under three headings: (1) Long-term loans for large-scale economic development projects; (2) the right to continue or, possibly, to intensify protection of Latin American industries, particularly against United States competition; and (3) facilities for larger and more stable exports to the outside world, especially the United States, preferably in the form of purchases of specified quantities of raw materials at guaranteed prices.

These claims face serious obstacles at this time, in the form of strong trends of economic policy in the United States and pressing material needs of areas outside of the Western Hemisphere. They pose four principal issues of economic policy on which present prevailing trends in Latin America clash with trends in the United States. These issues can be summarized as (1) regional preferences vs. multilateral worldwide trade expansion, (2) promotion of national industries vs. promotion of international trade, (3) economic nationalism vs. the need for foreign capital investments, and (4) controlled economy and state enterprises vs. the free enterprise ideal.

In the following two chapters we shall attempt to briefly discuss each of these four issues and to offer suggestions for constructive reconciliation of diverse viewpoints.

III. PRINCIPAL ISSUES OF PRESENT INTER-AMERICAN ECONOMIC RELATIONS

1. *Regional Preferences Versus Multilateral World-Wide Trade Expansion*

The idea of an inter-American or western hemisphere system of economic cooperation has appealed to many influential Latin Americans. It has seemed to promise a more ample, more profitable and more secure market in the United States for important products of the countries to the south. It seemed perfectly logical, from their point of view, that the United States, if it was interested in establishing and maintaining a regional system of close political and military cooperation with its twenty neighboring nations to the south, should also be prepared to offer those nations special facilities for marketing their exports in its extremely potent market and for turning to it for financial and technical aid for the modernization and expansion of Latin American productive facilities.

This idea has been all the more attractive to Latin Americans because some of their principal export commodities are in keen competition with non-hemisphere products on the United States market. This is true of tin and other ores and oil from the East Indies; cacao from Africa; and hemp and copra from the Philippines. (Natural rubber and cinchona, originally indigenous to tropical America, are now grown so much more economically in the East Indies that competition appears to be hopeless for Latin America.) There is no doubt that the Latin American exports to this country could be substantially expanded if the United States were willing to enter into a system of preferential trade agreements in favor of its southern neighbors, designed to exclude competing commodities of non-American origin. This possibility became particularly acute and attractive from the Latin American point of view after the end of World War II because of the renewed powerful competition of Far Eastern areas which had been isolated from the United States after Pearl Harbor and because of the weakening of the traditional European market for Latin American products. During the war Latin America enjoyed for all practical purposes preferential treatment for its products of strategic importance, and especially for those which in normal times are unable to compete on an open market. It is altogether natural that the Latin Americans would like to perpetuate this pleasant relationship.

On the other hand, those advocating a regional hemispheric organization on the basis of either preferential agreements or, beyond that, a customs union, should consider the following factors:

(a) From the viewpoint of the United States, a regional Western Hemisphere trade system would be unwise. It would drastically contradict a policy which has been pursued by the United States government since 1934 in favor of gradual decreases of the obstacles to the free international exchange of goods through Reciprocal Trade Agreements embodying the most-favored nation clause. It would mean abandoning vast areas in Asia to economic depression and political and social unrest, areas in whose stability we must be interested. (In the inter-war period, the United States absorbed between one-fourth and one-third of the total exports of South-East Asia.) It would be obviously incompatible with a policy in support of an effective international organization designed to bring about peace through economic cooperation the world over. We could hardly expect the British to liquidate their imperial preference system if we should be building a similar system of our own in the Western Hemisphere.

(b) A Pan-American, or any other regional, economic bloc could hardly be considered a step toward a free world trade system, as some advocates of the idea maintain. It would simply widen the geographic scope of economic nationalism and would create another set of vested interests vitally interested in Pan-American protectionism, interests that would be even more powerful than at present when they are limited to smaller national territories. The ultimate integration of regional blocs into a global economy would not be facilitated thereby; on the contrary, it would probably be more difficult to liquidate economic nationalism attached to continental blocs in favor of a unified world economy than those now connected with comparatively smaller national economies.

(c) The obstacles to such a policy would hardly be less if limited to the western hemisphere than if extended to the entire world, or at least to any nation willing to enter into Reciprocal Trade Agreements with the most-favored nation clause. In any case, concessions would be involved which would result in intensified competition for certain domestic producers. As mentioned before, concessions restricted to the hemisphere might be less acceptable to many Latin Americans because the only beneficiary in this case would be the United States as the only advanced industrial country. This might result in something like a United States economic monopoly in the rest of the hemisphere. Most Latin Americans would prefer to have several potent industrial countries compete for their market.

(d) Preferential treatment for Latin American products in the United

States and for United States products in Latin America would also provoke retaliatory measures in other parts of the world, particularly Europe. For instance, Britain and the countries of western and northern Europe might discriminate against the imports of Latin American cereals, meats, wool, cotton, and fruits. It is quite doubtful whether the gains which Latin America could expect in her exports to the United States would outweigh such losses in her traditional and natural export markets.

In this connection it is important to remember that in 1937 mutual trade between American countries, including the United States and Canada, absorbed only 39% of their total exports. The leading net exports of the Western Hemisphere which could not be marketed in the New World, were then (in order of importance and with values in millions in dollars) grains and flour (458), cotton (427), petroleum (426), copper (223), meats and livestock (173), tobacco (136), and nonferrous metals other than copper and tin (121). Among the *net* imports of raw materials which could not be produced in sufficient quantities in the Western Hemisphere were rubber (270), silk and rayon (142), vegetable oils and fats (134), jute and other vegetable fibers (103). Net exports of all goods amounted to $2,897 millions; net imports of all goods to $1,870 millions.[1] It goes without saying that a considerably higher degree of self-sufficiency can be reached, and was temporarily reached during the last war, by the expansion of existing lines and initiation of new lines of production in both Anglo and Latin America and by the consequent increase of purchasing power especially in Latin America, whereby a larger portion of the foodstuffs and raw material production of that area can be absorbed internally. But even so, the figures just quoted show conclusively that neither we nor the Latin Americans can afford to disregard the importance of our commercial ties with non-American areas.

(e) The effects of a Pan-American economic bloc would, of course, not be limited to the economic field but would extend to the political sphere. In the world in which we live, such effects would be decidedly harmful. They would mean a further weakening of the European continent and of Britain whose export trade to the western hemisphere would meet additional obstacles; it would force those countries to erect comparable systems of regional blocs, thereby adding to existing barriers.

[1] These figures are from A. R. Upgren, "Raw Materials and Inter-American Solidarity," in W. H. C. Laves (Ed.), *Inter-American Solidarity* (Chicago: University of Chicago Press, 1941), pp. 115 f.

Even worse, such action would confirm existing fears of the splitting of our world into huge power blocs antagonistic to each other. The Russians would probably be quick to interpret any such tendency as an aggressively imperialistic move of the United States, and would counteract it with a similar move in their own part of the world, including the eastern and southeastern regions of Europe. Obviously, this would further contribute to insecurity and economic decline in the Eastern Hemisphere and to the deterioration of international relationships in general.

While the idea of strengthening the Good Neighbor Policy through a system of inter-American preferences or a customs union may appeal to many well-meaning advocates of Pan-Americanism, we could do so only at the price of a serious and perhaps decisive deterioration of our world-wide commitments. It should be evident by now that no system of inter-American cooperation would be adequate for the protection of any American country if we should once more drift toward international anarchy and, as its inevitable result, total war.

Most of the foregoing considerations also apply to the idea of a preferential tariff system or customs union of the Latin American nations only. This idea has considerable appeal to many Latin Americans as a means of unifying what Víctor Raúl Haya de la Torre called "the disunited States of Indo-America," in the face of the tremendous power of the United States and other economically and politically strong nations. Nevertheless, it does not seem defensible from a purely economic point of view as an alternative to a policy of world-wide reduction of trade barriers through reciprocal agreements.

Never in peacetime have the Latin American countries conducted more than one-tenth of their aggregate exports or imports with each other. In Europe, the percentage of intra-continental trade (including the British Isles) in 1938 was 64. Naturally, if the entire area now constituted by twenty separate customs units could be made one unit, intraregional commerce would greatly increase. However, even then certain basic factors would make a high degree of self-sufficiency of the area unlikely: low population density with consequent labor shortage in most parts; high-cost output and high transportation charges of important raw materials; geographic facts which place Mexico and the Caribbean region closer to the United States and Canada than to most of the countries of South America; deficiency of capital supplies, skilled labor and technical experience; and inadequate internal demand for some of the leading staple export commodities of the area.

Therefore, it seems safe to predict that the natural markets for South

American cereals, meats and wool will, for a long time to come, continue to be in Europe, while the largest market for Brazilian and Caribbean coffee and cacao and for Caribbean bananas, fibers, and sugar will continue to be in the United States. Latin America's mineral output would still depend chiefly on both European and North American outlets.

Furthermore, the creation of a Latin American customs union would mean higher protectionist tariffs for products of heavy and manufacturing industries in all parts of the area, including some which, because of the absence of such industries, have had relatively few such import restrictions up to now. This would provoke higher tariffs on Latin American raw material exports to non-regional nations and the intensification of efforts for regional autarchy in other parts of the world, at the expense of world-wide, economically sounder trade relations.

It is by no means certain that a Latin American customs union is feasible at all. The past record of similar efforts is decidedly discouraging. Relations among nations of that area have not been spared, nor are they now, of the curses of jealousy, distrust and considerations of power politics. For about a generation individual Latin American countries have fostered, with great material sacrifice to their public treasuries and consumers, separate national industrial systems without any coordination designed to avoid unnecessary overlapping and paralleling of efforts. The idea of regional planning, beyond national boundaries, while often invoked by intellectuals, has hardly ever been practiced in Latin America, any more than in other areas. Today, Chile plans to grow beet sugar and to make herself independent from her neighbor Peru, whose cane sugar she has bought so far, in exchange for Chilean coal. Mexico, like the United States, maintains a high-cost sugar industry even though it could get all the sugar it needs from Cuba at a fraction of its domestic production cost. In July, 1947, the Brazilian textile industry called for reprisals against Argentina because the Argentine Government restricted imports of Brazilian textiles, presumably as a protection for the growing domestic industry.

In an economic union of Latin America, high-cost Colombian consumer goods industries, for example, would be just as unwilling to relinquish their present protection for the sake of competitive imports from, say, Argentina as they would be to do it for the sake of imports from the United States, Britain, or Switzerland. And the sacrifice of existing uneconomic industrial enterprises in Latin America would be more justified if it were done within the most comprehensive system of world economy, thus insuring lowest prices to the consumers, than if it were

done within the relatively narrow framework of a regional system in which comparatively high-cost producers would still be preserved through tariff protection and government subsidies.

2. *Expansion of National Industries in Latin America Versus United States Interest in Promotion of Exports*

Latin American tariff policies have been characterized, as a rule, during the past few decades, by a tendency to protect domestic consumer goods industries such as textiles, clothing, shoes, rubber products, food processing, cement, chemical and pharmaceutical articles. In some countries this protection was extended to agricultural products such as sugar, wheat, cotton, vegetable oils, and dairy products. Several countries have also embarked on an ambitious course of development of heavy industries turning out steel and machinery. In those which have (Argentina, Brazil, Mexico, Colombia), the highest protectionist tariffs are found in this field.

In view of the relative insignificance of direct taxes in Latin America, governments rely on customs receipts for a considerable part of their revenues. Therefore, fiscal tariffs apply to almost all other import commodities. Sometimes, the two contradictory purposes of raising revenues through moderate tariffs and protecting domestic producers through high tariffs come into open conflict. Raw materials and machinery which are considered indispensable for domestic processing industries and which cannot be produced internally are frequently admitted duty-free. So are breeding stock imported for the improvement of domestic livestock. Tariffs policies favor, as a rule, the importation of parts for assembly within the country, rather than importation of the finished product.

Export tariffs for revenue purposes are levied on staple export commodities, particularly raw materials, such as fruits, ores, and petroleum. In certain cases, such as Mexican fibers, tariff policy favors exportation of the article after processing in the country of origin rather than the exportation of the unprocessed raw material.

In times of emergency, tariffs have been manipulated for price control purposes. Thus, during the recent war and immediately thereafter Latin American governments have levied extra export taxes on domestic commodities which were in great demand abroad, in order to assure adequate supplies for the home market. Measures designed to restrict certain imports even further than normally have often been used to conserve scarce foreign currency for the importation of capital goods or consumer supplies which were considered more important.

The tendency to develop industries in Latin America is understandable and to a certain extent justified as a reaction to the damage caused to the Latin American economies by the system of monoculture in a period of disintegrating world trade, mounting nationalisms in economically more highly developed countries, prolonged economic depressions, and political world anarchy. Especially during the recent wars the domestic production of consumer goods seemed to be the only way to satisfy vital demands of the public. Many enterprises were begun during the war years in a kind of hothouse atmosphere, comfortably sheltered from the rigors of outside competition. Now, with prewar suppliers once more appearing on Latin American markets, such "emergency producers" loudly clamor for protection in order to survive. Yet, thoughtful Latin Americans ask themselves very seriously whether a policy of industrial development at almost any price should be pursued indefinitely; particularly at a time when the return to freer forms of international exchange is almost universally recognized as an indispensable prerequisite of world order.

The draft of the International Trade Charter, as adopted by the seventeen-nation Preparatory Committee of the United Nations Conference on Trade and Employment in Geneva, in August, 1947, states as some of the "objectives" of the states parties to the Charter: "To foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage the international flow of capital for productive investment; to further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities, which are needed for their economic prosperity and development;" and "to reduce tariffs and other barriers to trade and to eliminate discriminatory treatment in international commerce."[2]

"The Members recognize that special government assistance may be required to promote the establishment, development or reconstruction of particular industries, or particular branches of agriculture, and that in appropriate circumstances the grant of such assistance in the form of protective measures is justified. At the same time they recognize that an unwise use of such measures would impose undue burdens on their own economies, unwarranted restrictions on international trade and might increase unnecessarily the difficulties of adjustment for the economies of other countries."[3]

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[2] Chapter I, Article 1, pars. 2, 3, 4.
[3] Chapter III, Article 13, par. 1.

The incipient industries of Latin America are in most cases unable to face the competition of foreign imports on an equal basis. Several factors curtail very seriously the efficiency of industrial enterprises in most parts of Latin America: (a) Lack of an adequate raw material basis. Basic raw material resources, such as iron and coal, are either completely lacking or they exist only in poor quality or their deposits are in remote parts of the country with poor transportation facilities to the centers of manufacturing and demand. (b) The demand for manufactured products is relatively very small in view of the sparse population of most countries and the extremely low purchasing power. This factor is intensified by the fact that the area is divided into twenty separate customs areas and that practically all countries aim at the development of domestic industries of their own, thereby developing parallel projects and reducing the potential market of such industries as are now being developed in other Latin American countries. (c) The small production scale of industries makes the introduction of modern assembly-line methods difficult and results in relatively high costs of production. (d) Scarcity of skilled and specialized labor is another important handicap. (e) Capital is limited and interest rates are substantially higher than in the United States.

This explains partly why Latin American industrialists find it difficult or impossible to keep pace with technological advances and why many of their plants are handicapped by obsolete equipment and inefficient production methods. For example, the average Mexican weaver operates four looms, against the thirty looms of an average British weaver and the hundred of an average United States weaver.

Under these circumstances it must be doubted very seriously whether the development and maintenance of artificially stimulated domestic production, at costs considerably higher than those of foreign imports, is of real benefit to a sizable proportion of the Latin Americans themselves, in times of peace. In only too many cases it obviously is not. It is of scant satisfaction to the average consumer in Mexico or Chile to know that a pair of shoes or a shirt or an electric bulb offered him in the local stores is of national manufacture, if its price is twice as high as that of a comparable article of foreign manufacture. People who have to pay more for clothes, household articles, and electrical supplies, because of the supposed necessity to promote domestic industries, will be able to spend so much less for food, housing and books. In other words, the protection of certain domestic industries detracts purchasing power from other and quite possibly more important branches of the national econ-

omy. It prevents consumers from adequately satisfying other, socially desirable, demands and benefits only a small segment of the population which is directly connected with the favored industry. That benefit, too, is largely illusory if we consider that even people employed by domestic industries are affected by the general rise of the price level, caused by a systematic policy of protectionism. After once granting protection to some industries it is practically impossible to refuse the same favor to others, with the result that the whole price level will be pushed up and essential consumer goods will be priced out of the reach of large masses of low income groups. Urgently needed low-cost home building has been seriously handicapped in several countries of Latin America by protectionism favoring domestic producers of construction materials, particularly cement.[4] The competitive power of domestic exporters is seriously reduced by higher production costs resulting from an increased cost of living.

Monopolies of producers are facilitated, with consequent detriment to the consumers who have to pay high prices for poor quality.[5] These effects have become only too obvious in Latin America in recent years and have provoked a certain reversal of public opinion toward "national" industries.

As in many other countries, manufacturers in Latin America have become accustomed to look at state protection as the principal factor for the success of their enterprises, instead of efficiency and improvements in technology and management.

It is not surprising to find that Latin American labor spokesmen are trying to have their cake and eat it too. The Second Congress of the Confederation of Latin American Workers, in Cali, Colombia, in March, 1945, in a resolution called for "the revision of the traditional tariff system so that the customs duties perform the function of protecting the native industries but without causing, as has been the case up to now, the stagnation of production techniques and of labor conditions on a level adverse to the accelerated technological progress of our time."

The following statement by Daniel Cosío Villegas, the Mexican

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4 About the situation in Chile, see Willy Feuerlein and Elizabeth Hannan, *op. cit.*, p. 193.

5 It could be argued that this is not worse than to have to pay high prices to foreign cartels. However, under conditions of relatively free international trade there exists a better chance to maintain effective competition. Furthermore, protectionism in Latin America has often given rise to the establishment of a tight monopoly over the domestic market, with prominent participation of powerful foreign interests.

economist, is applicable to many countries of Latin America: "Mexico conceived very early the hope, which it has maintained always, of becoming an industrial country. Therefore it was believed that by manipulating the list of duty-free imports the Mexican industry only needed, besides a certain tariff protection, easy and cheap supplies of some raw materials and of specific types of machinery in order to be created and to prosper beyond measure. In effect, thereby, inasmuch as staple consumer goods were affected, the present was sacrificed to a future which has not yet come into existence; a mistake which has cost the Mexican people innumerable sacrifices."[6]

An increasing number of vested interests are being created, including both capital and labor, who exercise strong political influence and are therefore in a position to assure the maintenance of protectionist trade policies and subsidies. All this makes the idea of "educational tariffs," to be removed after an initial period of industrial development, illusory.

There are other unfavorable effects of this trend toward a maximum degree of self-sufficiency. By trying to develop a great variety of lines of production, no account is taken of the need for economizing the limited natural, human and capital resources. These resources could be used to much greater advantage by concentrating on the development of a limited number of lines of production—the kind of production for which each country is best fitted by virtue of its geography, its raw material resources, the density and structure of its population, and other social factors.

A warning should be voiced particularly against the superficial arguments in favor of industrialization of "economically backward" areas which makes no distinction between countries of high population density per unit of cultivable land and those which suffer precisely from the opposite situation. Quite possibly, industrialization can be the salvation for Java and India with their 1,000 and 250 persons per square mile, as it was for Japan with its 470 persons per square mile. On the other hand, Argentina, Brazil and Colombia with their population densities of 11, 13, and 20 per square mile do not suffer from overpopulation but, on the contrary, from a shortage of labor supply. Indiscriminate stimulation of industries would intensify that problem, draw labor from vital lines of production, cause unnecessary internal dislocations, and raise the general level of production costs.

It is easy to see what must be done if Latin America persists in its

6 Quoted by Joaquín Ramírez Cabañas, in *Revista de Economía*, Mexico, X, 3, pp. 53–54.

intention to industrialize its economies: (1) existing tariffs must be maintained and in many cases raised; (2) additional duties must be introduced for new industries; (3) foreign exchange control systems, which in the past have often served as an additional means of protection, must be preserved or revived; (4) outright import restrictions through administrative dictates will be resorted to in many cases, as is already true in Argentina; and (5) even currency devaluation will again be considered in order to place foreign products even more beyond the reach of domestic consumers.

It is equally easy to see what will be the repercussions of such a policy. Reprisals directed against Latin American exports by other countries which will find themselves hurt would be inevitable. The present efforts to promote intensification of world-wide trade through the gradual lowering of tariffs and the abolishing of administrative, preferential and discriminatory measures will be in vain, particularly in view of the important position which Latin America occupies today in world economy, in comparison with prewar times.

Latin American protectionism is of course diametrically opposed to the declared policy of the United States government to bring about freer international trade conditions. This conflict came into the open at the Inter-American Conference on Problems of War and Peace in Mexico City, early in 1945 when Mr. William L. Clayton, then Assistant Secretary of State, presented a draft for an Economic Charter of the Americas. A significant part of that draft was the demand "for practical and effective cooperative measures to reduce barriers of all kinds to the flow of international trade" and "elimination of economic nationalism in all its forms." This had to be watered down considerably before it proved acceptable to the Latin American delegates. The reduction of trade barriers is now qualified by the provision: "in accordance with the purpose of assuring all peoples of the world high levels of living and the sound development of their economies." "Elimination of economic nationalism in all its forms" was restricted to elimination of "the excesses which may result from economic nationalism," with the significant addition: "including . . . the dumping of surpluses of national production in world markets." It seems reasonable to surmise that in this connection some Latin American delegates may have had in mind the export of United States cotton. Also, an item in the United States draft calling on all American republics "to refrain from the establishment of state enterprises for the conduct of trade" was eliminated from the final version. Today at least one American nation, Argentina, has such enterprises.

Ever since that time the so-called Clayton Plan has been the object of criticism and antagonistic propaganda throughout Latin America. The efforts made by Messrs. Cordell Hull and William Clayton on behalf of a liberalization of international trade have been compared to Cobden's and Gladstone's trade policies in so far as all these men were allegedly attempting to induce weaker and less developed countries to sacrifice their aspirations of more balanced economic growth to the unlimited trade expansion of one preeminent industrial nation.[7]

It is interesting to note that in this propaganda domestic industrialists have joined hands with labor organizations. In several countries, including Mexico and Cuba, organizations of industrialists have entered into agreements with labor unions providing for cooperation in order to secure continued and intensified government protection for domestic industries in the face of what is often described as an attempt of United States interests to ruin Latin American producers and to curtail the economic independence of the less developed countries to the south. In March, 1945, when the economic committees of the Chapultepec Conference were studying the so-called Clayton Plan, the National Chamber of Transforming Industries of Mexico, the Confederation of Chambers of Commerce, the Confederation of Mexican Workers and Vicente Lombardo Toledano, President of the Confederation of Latin American Workers, issued a statement warning against the acceptance of "the North American free trade" which, according to them, "would never be convenient to us, because of our backward conditions."[8]

The following opinions were voiced in a formal report presented to the First National Congress of Transforming Industries at Mexico City, in April, 1947: "The Clayton Plan . . . means nothing but a plan for world dominion and for the abolition of competition and freedom. The role which the United States plays in it is that of a metropolitan country while the other countries are on the level of satellite states. Only the United States is defending this neo-liberalism. The other countries, all over the world, are opposed to the total loss of their independence on the altar of something which pretends to be democracy and liberty but which is nothing more than an egotistic and cunning libertinism. Thus, the other countries are assuming an attitude of repudiation of this thesis by means of protectionist measures, both particular and general. Mexico is one of these countries and in its very heart it is

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7 Gustavo Polit, "Los tratados y convenios comerciales celebrados por México con otros países." *Revista de Economía*, Mexico, X, 3, 1947, pp. 69–70.

8 *Tiempo*, Mexico, March 9, 1945.

the national industry which represents the living thought and action of the fatherland on its march toward a better future."[9] It is interesting and useful to consider the important points of contact between this appeal of leading capitalists of our immediate neighboring country and the anti-United States propaganda of communist origin which is now spreading over many parts of the world.

In April, 1947, the Mexican and the Latin American Labor Confederations made joint statements identifying themselves with the protectionist demands of the Congress of Transforming Industries of Mexico. They denounced the thesis of free trade as "harmful to the Mexican economy;" requested the government to insist on a revision of the existing trade agreement with the United States, inasmuch as it "is a beginning of the execution of the Clayton Plan which does not offer any benefit at all to our country and only inflicts grave damage on it;" and asked for strict government control of both imports and exports and "tariff protection in order to prevent the tidal wave of the large North American production from crushing the existent industries in our country." They added: "The working class of Mexico supports in all its parts the conclusions reached by the First Congress of Mexican Transforming Industries concerning import and export controls, tariffs, subsidies for industries, international trade agreements, and duties of the Mexican industry."[10]

Shortly before the opening of the International Conference on Trade and Employment in Havana, in November, 1947, a mass demonstration of Mexican workers and employers was held before the National Palace in Mexico City. Signs were carried asserting that the purpose of the Conference was "the international establishment of the Clayton Plan which constitutes a danger to the political and economic sovereignty of the Latin American nations." José R. Colín, prominent industrialist and member of the National Chamber of Transforming Industries of Mexico, in addressing the meeting declared that "the future of Mexico is threatened by a panorama similar to that of 1847. . . . We industrialists, as well as the workers, ask for tariff protection as the only means which can save us from unemployment. Unemployment has begun to make itself felt thanks to the Trade Agreement of 1942 which was signed by able North American diplomats and ignorant Mexican diplomats."[11]

9 Engineers Agustín Fouque, Carlos Benítez and Abel Morros, in *Revista de Economía*, Mexico, X, 4–5, 1947, p. 58. (Translated by the author.)

10 *Noticiero* de la CTAL, Mexico, D. F., May 5, 1947. (Translated by the author.)

11 International News Service Dispatch by Ricardo Toraya, Mexico City, November 18, 1947.

Similar charges were made by Vicente Lombardo Toledano, on behalf of the Confederation of Latin American Workers, in a message addressed to the Havana Conference. He also charged that "the Clayton Plan which is to be discussed in Havana not only intends the destruction of tariff barriers but also proposes acceptance of the principle that foreign capital may be invested in any country without restrictions other than those imposed on national capital. Furthermore, it forces the countries producing raw materials to sign conventions for the obligatory sale of such products to the countries which need them, but these, in turn, do not obligate themselves to sell machinery and industrial equipment."[12]

The Latin Americans maintain that they cannot be expected to renounce the right to restrict "unnecessary" foreign imports (those either considered luxury or produced domestically) in order to conserve precious and scarce foreign currency for the purchase of necessary import commodities which are unobtainable within their countries. They argue that Reciprocal Trade Agreements with the most favored nation clause between a highly industrialized country with greatly diversified resources like the United States, and technologically backward countries which are just beginning to struggle toward diversification of production place these latter in an unfair disadvantage, lay them open to being swamped with imports of all kinds and thus cause the ruin of their domestic industries and unfavorable trade balances. They feel that liberalism in international trade favors only those countries which have sufficient economic power to take advantage of it.

This issue is further complicated by the fact that the United States has doubled its industrial production during the recent war years.[13] In the opinion of many Latin Americans, this will soon force the United States to look for outside markets with more energy than ever before, and to expand its export trade for an adequate utilization of at least part of that additional productive capacity. This has made many Latin Americans feel that, far from making "concessions" in future trade

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12 *Noticiero de la C.T.A.L.*, Mexico, D. F., December 1, 1947. (Translated by the author.)

13 According to the Bank for International Settlements, the monthly index of industrial production in the United States increased from 100 in the average of January to June, 1939 to 230 in April, 1945. In March, 1947, it was about 185. (*Federal Reserve Bulletin*, XXXIII, 10, October, 1947, p. 1231).

Seymour E. Harris estimated in 1944 "very roughly that the expansion of output in Latin America at the very most has been of the order of about 20 per cent, as compared with an expansion of 75 per cent in the United States." (S. E. Harris, Ed., *Economic Problems of Latin America*, New York: McGraw-Hill, 1944, p. 19.)

agreements, they must intensify protectionist measures if they do not want to see all their domestic manufacturing killed in short order. In that event, they fear, their countries would be forced to revert to the status of primitive, monocultural, raw material-producing countries which once more would be helplessly exposed to the harmful effects of economic world depressions, restrictive trade policies of other countries, and future war.

President Miguel Alemán of Mexico, in his address before the General Assembly of the United Nations in the spring of 1947, stressed the right of economically less advanced countries to extend special protection to insufficiently developed branches of their economies.

In another speech in New York, on May 2, 1947, President Alemán declared the type of nationalism for which the less developed nations stand today "holds that a policy based on a supposed economic and commercial equality stunts the growth of the less industrially developed countries; it is tantamount to dividing humanity into two irreconcilable camps, one made up of countries that have unhampered access to raw materials and export without hindrance their manufactured products, and the other of countries selling their raw materials at low prices while they buy at high prices the goods produced with their own raw materials. These latter countries, having no protection, find insurmountable obstacles when they seek to industrialize adequately their own resources."

And at the United Nations Conference on Trade and Employment in Geneva in 1947, the chief of the Brazilian delegation declared: "We do not expect to be asked for favors that may harm our economic progress. Naturally, we are not in a position to make the same substantial reductions in our tariffs as the nations with more mature economies. This is primarily because we need protection for our infant industries. . . . In our negotiations we shall be guided by the principle that, as a country in the process of growth, Brazil needs certain goods more than others. Therefore we hope that, taking cognizance of this reality, other countries will not ask us, at least during a necessary period of readjustment, for concessions on products that Brazil already produces or on which Brazil cannot spend its precious monetary reserves accumulated during the war or resulting from our favorable balance of trade. . . . It is not enough to liberate world trade on the basis of the present purchasing power of peoples. This static concept must be complemented by a dynamic one leading to the economic development of nations. . . . Brazil works today at a more balanced development of her economy. This can be had only if her industries have their growth favored."

Whatever fault we may find with this reasoning, we have to recognize that this attitude is representative of present governmental policies and prevailing public opinion throughout Latin America.

It should also be remembered that this whole problem is intimately linked with political considerations. In the eyes of many Latin Americans the danger of one-sided economic dependence on the United States has very greatly increased as an effect of World War II with consequent virtual disappearance of strong non-American competitor nations on the Latin American market. The possibility of a United States monopoly in Latin America would inevitably have political implications. It would intensify and perpetuate the predominance of the "colossus of the North" over its weaker and poorer neighbors. Domestic industries are expected to lessen that dependence.

Aside from such more or less rational considerations there are also purely emotional factors which enter into this question. Economic diversification and domestic production not only of consumer goods, but especially machinery, and of steel, the basis of most heavy industries, appears to an increasing number of Latin Americans as a symbol of national sovereignty and pride. Many of them are willing to pay a heavy price for this evidence of national strength and collective vitality.

There is a wide-spread impression among Latin Americans today that the unique expansion of industries in the United States was chiefly due to the protectionist trade policy of this country. They do not see why Latin America today should not be entitled to follow that example. In this connection it should be pointed out that the industrial development of the United States was attained not primarily as a result of tariff protection, but that it was rather based on a combination of a tremendous variety and quantity of raw material resources; a large area of free internal trade with rapidly increasing productive power; adequate and relatively cheap labor supply for industries during the period of their most rapid growth, thanks to the encouragement of mass immigration; spread of popular education; a minimum of restrictions of individual enterprise by a traditional pre-capitalistic social structure or by government; political stability, relative internal peace and juridical safety, all indispensable for attracting capital investments; absence of discriminatory treatment of foreign capital, labor, and entrepreneurs; and, last but not least, consistent pursuit of mechanization and greatest efficiency of production and distribution.

The prospects for the future growth of Latin America's economy would be much brighter if more of its leaders were willing to emulate

this example rather than to focus their attention on essentially restrictive measures designed to limit or eliminate competition.

3. *Economic Nationalism in Latin America Versus Need for Foreign Capital and Experience*

Certain activities of foreign-controlled enterprises in Latin America have long been criticized by Latin Americans. It was felt that foreign corporations were making excessive profits at the expense of native workers and employees; that they charged exorbitant prices and utility rates to domestic consumers; that they contributed too little to the national treasuries of the countries where they operated; that they often interfered unduly in the internal politics of such countries and contributed to the corruption of politicians and government employees; that they provoked international friction and interventions by foreign governments; and that they failed to re-invest a substantial part of their profits in the countries where they had earned them. Another frequent cause of resentment was the discriminatory treatment of national employees in comparison with foreigners, citizens of the country of the corporation, who usually received higher pay for the same type of work performed by natives. This charge has been made especially against United States corporations operating in Latin America. It has also been charged that executive positions are hardly ever filled with Latin Americans, even when competent candidates are available

In addition to all these more or less specific and more or less justified objections to the business policies of foreign corporations, the very fact that important enterprises are controlled by absentee foreign interests has come to be deeply resented by Latin Americans. This is probably natural, if regrettable, from our point of view, considering the almost universal wave of nationalism which is sweeping over the materially less advanced and the politically dependent areas in our time. A number of measures have been taken in the countries to the south in order to curtail this foreign control of important segments of their national economy. These include extreme cases of outright expropriations, some of which might be more properly described as confiscations, as in the case of the oil industries of Mexico and Bolivia; the acquisition of foreign-owned public utilities by national governments through more or less voluntary sale, as in the cases of the telephone and railroad systems of Argentina and the light and power systems of Chilean cities; restriction of capital transfers from Latin American countries and special taxation designed to induce absentee capitalists to re-invest their earnings in Latin America;

and legislative measures designed to restrict certain activities of foreign corporations. Such measures include the fixing of a maximum percentage of payrolls and of the number of employees for non-citizens; the fixing of public utility rates by government agencies;[14] restrictions on transfer of profits abroad; the exclusion of foreigners from certain types of enterprise, such as coastal shipping, banking or insurance; and labor legislation designed to "milk" foreign-controlled enterprises in the interest of native labor. Needless to say there has also been a marked tendency to make powerful foreign corporations pay higher taxes and fees, especially in the oil business.

There is no doubt that some of these measures can be defended within reasonable limits. It is evident that with the increasing maturity of the economic structure of some of the countries, with the growth of an effective public opinion and with the gradual strengthening of the international position of countries like Argentina, Brazil, Chile, Colombia, and Mexico, foreign corporations must expect to conform to national standards and to what is considered national interest much more than they did fifty or even twenty-five years ago. One or two generations ago, foreign corporations often performed an indispensable and unique function which at that time could not be performed by either the national governments or national private businessmen. It was only they who were able and willing to invest relatively large amounts of capital in the opening and equipment of mines; the search for and exploitation of oil wells; the construction and operation of railroads and public utilities; the development of fruit plantations in tropical areas which required almost everything except soil and climate to be made productive: population, housing, railroads, shipping services, port facilities, telegraph and telephone communications, sanitation and health facilities, schools, etc. It was only natural that under such circumstances enterprises like the United States fruit companies and meat-packing companies, the British-Dutch and North American oil companies, the European and North American utility corporations and mining companies acquired a tremendous stronghold on the economic and political life of the countries in which they operated. Frequently the income of one of these corporations exceeded the government revenues of a Latin American nation. These corporations had in their service technicians and lawyers, many of these latter "native," who could not be equalled by government officials. The climate of international relations in those

14 Such measures may be entirely justified and necessary in case of monopolies.

times also favored the activities of corporations controlled by citizens of powerful nations; they usually could rely on their home governments for pressure on the weak governments of Latin American countries.

Most of these conditions have changed in a number of Latin American nations. These changes are likely to come to all of them in the foreseeable future. These countries have grown in internal strength. The movements of nationalism and social protest have grown tremendously and are now joined in opposing anything smacking of abuse of economic power by outsiders. In this respect the alliance between the representatives of young domestic industries and labor unions is symptomatic. An alert public opinion, usually represented by intellectuals, professionals, teachers and students, in addition to the growing labor movement, begins to act as a brake on public officials and legislators who may be inclined toward liberal treatment of foreign interests.

Also, foreign government intervention in behalf of the business interests of its citizens has become unpopular and unlawful. This was definitely established by the Good Neighbor Policy, as became obvious in the handling of the cases of expropriations of United States property in Bolivia and Mexico.

While admitting that excesses were committed in the past and that the legitimate interests of Latin American peoples were not always duly observed, it is necessary to warn against too radical a reaction against foreign business interests. Latin America as a whole is still short of capital, business initiative, specialized experience and technical skill. It would be unrealistic to believe that the large accumulations of idle money in Latin America during the last war have relieved the need for foreign investments. A large part of these accumulations were spent in the purchase of consumer goods as such articles could be obtained abroad after the end of the war. Latin America would harm its own best interests if it adopted a long-term policy of systematically discouraging foreign enterprise and investments, in addition to excluding foreigners from attractive positions. As a matter of fact, the more anxious the Latin Americans are to develop their own resources and to diversify their economies, the more they will need the participation of foreign capital and skill. There is evidence that intelligent business leaders and statesmen in the countries to the south are aware of this and have learned from certain unpleasant experiences in the 1930's. For instance, Brazilian laws of the last decade excluding or restricting foreigners in certain lines of business activity recently were repealed. Leading representatives of many countries, including Argentina, Brazil, Chile, and

Mexico, have recently taken pains to stress the importance of foreign capital to the future development of their countries and have extended invitations to capitalists and businessmen abroad to cooperate on a basis of equality. The present trend points toward a new and very interesting form of joint enterprise of Latin American public and private capital with foreign, mainly United States, capital and experience. Under such a set-up foreign participation is usually limited to 49 per cent of the shares and to a minority representation on the board of directors. However, this may prove to be an effective bulwark against nationalistic reaction and may offer foreign capital more stability and security than it could expect otherwise. Furthermore, such arrangements are often accompanied by valuable concessions and permit United States enterprises to serve a foreign market which would otherwise be difficult to reach for them in view of high protectionist tariffs.

Nevertheless, opposition has already been voiced by interest groups in Latin America against the establishment of foreign-controlled subsidiaries of foreign manufacturing industries. Thus, General Joaquín de la Peña, President of the Mexican Chamber of Transforming Industries, at the First National Congress of that organization in April, 1947, presented an "urgent demand for a coordinated system of juridical and economic defenses in order to avoid the displacement of Mexican industry by subsidiary factories of large foreign enterprises. . . . What we condemn is that, in order to evade the Mexican tariffs, foreign industries establish themselves and compete disloyally with ours, making use of their financial power, in branches of industry which already exist in Mexico, in view of the fact that we have well established factories which are perfectably able to saturate the market and even have surpluses for export. This phenomenon is happening with a frequency which frankly alarms us."[15] Two years earlier, the same organization had opposed the continuation of direct foreign investments and had suggested instead the issuance of fixed-interest bonds to foreign investors, through Mexican banks.

4. *Controlled Economy and State Enterprises in Latin America Versus the Free Private Enterprise Ideal in the United States*

For approximately one hundred years Latin America was the mecca of private enterprise unhampered by effective state control.[16] As a rule,

15 *Revista de Economía*, Mexico, D. F., March 31, 1947, p. 30. (Translated by the author.)

16 This, of course, does not take account of the frequent informal and costly "interventions" in business by more or less legal government representatives in times of revolutions, civil and external wars.

governments in Latin America were weak, unstable, poorly organized and strongly influenced by the teachings of British and French liberal economists. Normally, entrepreneurs and capitalists, regardless of whether they were native, foreign or immigrants, had free reign. Labor legislation, social security measures, anti-trust laws, health, safety and purity standards were limited to a minimum, if they existed at all. A notable exception since the early part of this century was Uruguay.

The foregoing statement should also be qualified by the reminder that there has been comparatively little "enterprise" in Latin America, in the meaning of private initiative giving birth to new lines and more efficient methods of production and distribution. The semi-feudalistic social structure of most of the countries did not favor innovations and did not offer some factors which are essential for economic expansion in "young" areas, such as wide-spread interest in material progress, fast population increase, available land in accessible locations, a fair degree of equality of opportunities, popular education, and political stability. It is important to keep in mind that, for this reason, the free enterprise system (with emphasis on "enterprise"), or capitalism, has never come into full reality in the major part of this area. Most Latin Americans have never experienced what capitalism could do for them in creating higher living standards—if it could be made to work. Like most of Eastern Europe and Asia, Latin America is still largely pre-capitalistic and may pass directly from this stage into some form of state capitalism or state socialism.

Of all changes in the Latin American scene during the last generation, perhaps the most radical has occurred in regard to the relationship between government and business. Several factors contributed to this: (1) the goal of industrialization, diversification of production, and fuller utilization of idle natural resources, which could be approached only through governmental planning and state financing; (2) the social protest movements of underprivileged classes which forced either social revolution, as in Mexico, or concessions from reluctant governments in the form of labor legislation and social security measures, thus widening the scope of government action and narrowing down the freedom of private management; and (3) the increasing complexity of government responsibilities as a consequence of growing population numbers, expanding economic activities, and the rise of a politically articulate public nourished by the extension of educational facilities. In more and more countries, policy decisions are not limited any longer to small circles of well-to-do families and professional lawyer-politicians. New

parties have come into existence, representing new social and economic groups conscious of what they believe to be their interests and eager to defend them. Through all this winds the thread of Latin American nationalism: the urge to make the nation prosperous, strong and respected, to restrict what appears to be abuse and exploitation by powerful foreign interests, and the conviction that this can be achieved only by strong governments.

Thus, precisely at a time when the United States is going through something like a reaction to a period of increasing public controls of economic life, Latin America has embarked plainly on an opposite course. A significant trend of present Latin American thought on this subject is expressed in a recent statement by a Mexican economist: "The countries of limited resources must make efforts to plan; on the other hand, the empires and large countries of continental size, with very abundant and almost complete resources, could afford the luxury of being satisfied with the system of 'hit and miss' [English in the original]. This term suggests the idea of waste which we must reject as much as is humanly possible, in the case of our modest nations."[17]

And Roberto Simonsen, a leading Brazilian industrialist and economist and President of the Federation of Industries of São Paulo, urges "to promote effectively, by means of an ample planning, the economic mobilization of the country in accordance with its resources and realities, . . . in order to combat the pauperism until our fatherland will have reached a degree of progress which assures to all Brazilians a life worth living."

An authoritative statement of the ideological basis of Argentina's Five Year Plan was given in 1946 by President Juan Domingo Perón in an address before the Chamber of Deputees from which the following is quoted: "It is necessary to establish a better economic cycle within our nation, and this is one of the things which our Plan is designed to do. We must double our production; we must multiply that by four by means of an adequate industrialization; . . . we must distribute that wealth equitably and raise the living standards of our hungry masses who constitute half of our people. . . . And, when the cycle of production, industrialization, marketing, and consumption will have been closed, we shall not have to beg for foreign markets, because we will have our market within the country. Thereby we will have solved one of the most important problems—that of social stability—because hunger

17 Gonzalo Robles in *Revista de Economía*, Mexico, D. F., March, 1947, p. 33.

is a very bad counselor of the masses. . . . Therefore, the theme of our Plan is to produce more. . . . For this we must concern ourselves with the necessity of organizing our wealth which at present is totally disorganized. This condition has been responsible for the fact that the benefits derived from this wealth have remained concentrated in the hands of four monopolies, while the Argentines have not been able to enjoy even a minimum of that wealth. That wealth has been lost because of lack of organization. And who should organize the wealth? The monopolies? Some people warn us against a directed economy. I ask them: where do they find a free economy? If the State does not direct the economy, the monopolies do it. The only difference is that the State can direct the economy for the purpose of distributing the product of our wealth among the fourteen million Argentines."[18]

Economic planning in Latin America has made surprising strides during the past seven years, approximately. It has expanded from a number of modest and poorly integrated attempts to aid in the establishment of small manufacturing plants of consumer goods to the planning of comprehensive development projects of regional or national scope, by means of Development Corporations, as in Chile, Colombia, Peru and Venezuela, State controlled or semi-official Industrial Credit Banks, as in Mexico, Argentina and other countries, and semi-Autonomous "Institutes" for specific commodities, as in Brazil.

United States experiences under the New Deal, as for example, the Commodity Credit Corporation, the Reconstruction Finance Corporation, and the TVA have had an enormous influence, as have also certain totalitarian forms of economic organization, particularly the one evolved by Hjalmar Schacht in Germany. The theories of Keynes and his school have deeply influenced the thinking of many prominent economists in Latin America today.

Uruguay has a tradition of several decades of ownership and management of business enterprises by "decentralized" state agencies. Today, government monopolies exist in the fields of insurance, electric light and power, telephones and telegraph, docks and port services, mines, petroleum refining, and alcohol. Important non-monopolistic state enterprises exist also in the fields of transportation, construction, chemicals, fishery, meat and fish packing, and hotels.

In Peru, the present administration in which the influence of the

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18 "Planificación integral," *Informaciones Argentinas* (Ministerio de Relaciones Exteriores y Culto, Buenos Aires), No. 107, 1946, p. 2. (Translated by the author.)

APRA[19] is strong, recently created the National Economic Congress in which all major economic groups, including foreign direct investors, are represented. This body supervises a number of public "corporations" which have charge of long-term credit and of development projects in the fields of petroleum exploitation, food production and distribution, low-cost housing, and tourist trade, including the construction and operation of a string of hotels.

The present Mexican administration of President Miguel Alemán made a Six Year Plan for industrialization and agricultural expansion the cornerstone of its program. It proposes to invest 3,185 million pesos ($640 millions) between 1947 and 1952.

The Corporations and Institutes for Development which have been created in several Latin American countries during the past fifteen years deserve particular attention. Their chief purposes are, as a rule, three: (1) Study of economic problems and of the human and natural resources and planning for their most ample and rational utilization; (2) organization and financing of development projects in such fields as mining, manufacturing, transportation, agriculture, fisheries, and forestry—projects which by their magnitude are beyond the scope of private enterprise or cannot be expected to attract private capital because they do not promise sufficient and early profits; and (3) operation of plants, public utilities, and plantations, training of technicians and specialists in science, technology, economics, business administration, etc., establishment and operation of research and experiment stations, extension and demonstration services. These Corporations propose to supplement rather than to replace private enterprise. They are expected to support private initiatives wherever feasible.

The most ambitious and most significant attempt at government planning of economic development undertaken so far in Latin America is the Five Year Plan of the Perón administration in Argentina. It was passed by the Argentine Congress in April, 1947, without debate. It was undoubtedly molded upon European models of totalitarian planning. Its announced aim is to make the Argentine nation strong through a diversified economy and as independent as possible of outside markets and foreign influence. It attempts to achieve this through strict control of

19 "American Popular Revolutionary Alliance," a movement devoted to the economic, social, and cultural rehabilitation of the masses, particularly the Indians; to the fight against "foreign imperialistic exploitation;" and to the unification of the twenty republics of "Indo-America." Its founder and leader is Víctor Raúl Haya de la Torre. Among its supporters are some of Latin America's outstanding contemporary intellectuals.

the entire credit system by the Central Bank; government control of imports, exports, and foreign monetary exchange; a government monopoly of the purchase of all major export products, except wool, and their sale abroad at very much higher prices; acquisition by the government of foreign-owned railroads and public utilities; expansion of transportation, hydro-electric power, and irrigation; promotion of new industries, chiefly through mixed enterprises financed jointly by public and private interests, under the guidance of the State Bank for Industrial Credit, preference being given to the production of raw materials and machinery; and organized immigration and settlement. It is expected that the cost of this program, estimated at 6,790 million pesos, will be met in part from profits made through government marketing of export commodities. In other words, the export industries are forced to make sacrifices for what is believed to be the necessary broadening and nationalization of the internal economy. The success of this plan will depend on two principal factors: the continuation of the present boom demand for Argentine food and raw material exports in the starved countries of Europe; and the ability of the present government to maintain its stability and dictatorial power over disgruntled elements in the ranks of low-income consumers, agricultural producers, and political liberals. It will, of course, also be necessary to avoid excesses of administrative corruption and inexpert planning and management in an environment in which free discussion and opposition have been rather effectively silenced.

So far, this development has met with little opposition on the part of Latin American capitalists who have on the whole greatly profited from the sizeable state support given them. Here as elsewhere, state interference with the principles of free competition and private enterprise seems to be acceptable to even the most enthusiastic advocate of that system as long as such interference protects him from outside competition and provides him with cheap credit and high prices for his product. However, with the rise of the State as an active large-scale entrepreneur in its own right, the accumulation of complex and frequently changing government controls and regulations, the imposition of labor demands on unwilling employers by the government, the attitude of the capitalists may change in the near future. Indications of such a change exist already in Argentina.

An essential part of this type of economic planning is, of course, a monetary policy adapted to it. The prevailing trend in this respect in Latin America can be roughly summarized as follows: Our monetary

policy must aim at balanced economic development of the country, stable employment, and population increase. This precludes a return to the gold standard. What we need is a foreign exchange control policy combined with an expansive monetary policy in times of contraction of exports and decline of foreign capital investments. However, direct regulation of imports through foreign exchange control has been found administratively complicated and has produced undesirable economic effects in many instances. There is now much inclination toward the Argentine system of various categories of exchange rates in regard to commodities and, possibly, countries, depending on the relative importance of each commodity and the state of the balance of payments with the respective supplier country. Priority is usually given to essential raw materials and capital goods for domestic industries.

Latin American economists recognize that their countries are vitally interested in the revival of world trade inasmuch as they will remain in need of imports, for which they must pay with exports. On the other hand, they are quite reluctant to admit international intervention in their restrictive manipulation of imports through differential exchange rates. It may well be that difficulties will result in this connection in such bodies as the International Monetary Fund and the proposed International Trade Organization.

Until quite recently, all economic planning in Latin America was limited to the various national economies. There had been much speech-making and writing by intellectuals urging ambitious schemes of inter-Latin American and regional economic unification but nothing had been achieved in practice. It is only now, since the end of the last war, that a concrete start in the direction of inter-Latin American economic planning has been made. The Argentine trade pacts with neighboring countries, particularly Chile, undoubtedly have such significance.

Under the Argentine-Chilean agreement of 1947, Argentina will grant Chile a rotating credit of 100 million Argentine pesos (about $24,430,000) to be repaid in five years beginning in 1950. Argentina will also contribute 300 million pesos toward a joint financial corporation to foster new industries and to modernize existing ones, particularly those whose output is in demand in Argentina. Another 300 million pesos will be made available to Chile for the building of new railroads, highways and port facilities in which both countries are interested for the exchange of goods between them and the transhipment of Argentine cargo in Chilean ports. Argentina promises to buy Chilean coal, nitrate, copper, and timber. Chile will get more meats, cereals and vegetable oils from across the Andes.

Already in 1943 formal negotiations had been initiated for the purpose of laying the groundwork for a customs union between the two countries beginning with the elimination of tariffs on non-competitive articles.

After President Gabriel González Videla of Chile returned from his official visit to Brazil and Argentina, in July, 1947, he announced that the main purpose of this trip had been accomplished when both those nations agreed to make Chile their sole supplier of nitrates for their industrial and military needs and to abandon, for a six-year period, their plans for construction of synthetic nitrate plants.[20]

Other commercial agreements were signed, in 1946 and 1947, between Argentina, on the one hand, and Bolivia, Paraguay and Ecuador on the other. All these agreements incorporate elements of compensation and barter trade. The first two also provide for the investment of sizeable Argentine public funds in the development projects of the smaller countries.

In September, 1947, Brazil and Venezuela made arrangements for an exchange of Brazilian foodstuffs and textiles for Venezuelan government-owned oil.

From the viewpoint of the United States such agreements are welcome whenever they help prevent the creation of uneconomical industries limited to relatively small national territories and which would parallel existing and more cost favorable productive facilities in neighboring countries. Any move in the direction of creating larger economic units within the Americas and of removing or at least lowering customs and administrative barriers must be welcomed, no matter what countries are directly concerned. However, this is true only to the extent that such agreements are not discriminatory in regard to third nations and have no undesirable political implications.

The question could be asked why the Latin Americans, with their comparatively backward economies, could not repeat the experience of the Anglo-American countries by trusting for their settlement and industrial expansion to the forces of private enterprise and free competition. Have these forces not created, in the United States and Canada, the highest living standard in the world and a political democracy which can hardly find its equal anywhere else?

No matter how strongly we in the United States may feel in favor of the system of free private enterprise, we must make an effort to understand that the general situation in Latin America, as well as in most of the rest of the world, is such as practically to preclude the adoption of

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20 United Press dispatch, Santiago, Chile, July 13, 1947.

this system in its extreme form of laissez-faire. Here again, we find that the problem is not primarily an economic one and that it has extremely important political and sociological implications. A disciple of José Batlle y Ordóñez, the great Uruguayan statesman and social reformer, is quoted as saying: "From the point of view of the national economy, a wasteful administration by the State is always preferable to the efficient management of an industry by foreign capitalists."[21] A free enterprise system without important state controls would mean, in the present stage of economic development of Latin America, an open door to powerful foreign corporations. Foreign influences are opposed by the vast majority of Latin Americans who are today intensely nationalistic.[22] State control of business, in the form of protectionist tariffs and administrative restrictions of many kinds, as well as of government subsidies to producers are demanded today not only by national producers but also by the powerful and vocal labor organizations. The same is true in regard to restrictions of immigration. The Latin Americans are apt to point at the United States with their long tradition of protectionist trade policies, immigration restrictions, anti-trust legislation, regulation of transportation carriers, and, during the past fifteen years, its complex system of price support policies and government subsidies. They feel that this example provides them with a powerful argument in defense of their present trend away from laissez-faire and toward an ever more comprehensive policy of government controls, mixed enterprises, and public corporations, especially in the fields of transportation, public utilities, insurance, and heavy industries.

Another important aspect is the combination of nationalism and socialism in the public life of Latin America today. Many of those who would promote the political and economic independence of their country as a reaction to what they consider hateful foreign interference and exploitation feel that this is possible only through a certain measure of

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21 Quoted by Simon G. Hanson, *Utopia in Uruguay*, New York: Oxford University Press, 1938.

22 On July 6, 1947, during the celebration of the 131st anniversary of the declaration of Argentine political independence in the historic city of Tucumán, President Perón, together with the Vice President, various cabinet ministers, the President of the Central Bank, representatives of all the armed forces and other high government functionaries, signed a proclamation declaring the country's economic independence from the domination of foreign capital and the consequent recovery of control over its economic resources. (The First National Bank of Boston: *The Situation in Argentina*, July 28, 1947, p. 2.)—For a somewhat more detailed discussion of this trend, see Richard F. Behrendt, *Economic Nationalism in Latin America*, Albuquerque, New Mexico: School of Inter-American Affairs, University of New Mexico, 1941.

state capitalism or outright socialism. In view of the relative scarcity of private capital accumulations, the timidity of national capitalists, and the magnitude of the development projects to be undertaken, these people turn to the state as the only enterpriser big enough for the task. On the other hand, Latin American socialists are the most ardent nationalists—a rather paradoxical situation if one remembers the internationalist traditions of European socialism from which Latin American socialists took their inspiration. Yet, this is easy to understand in view of the fact that large capitalist enterprises in Latin America in most cases are identical with foreign enterprises. The so-called exploitation which is indicted by socialists in Latin America is charged to foreign corporations and, often, indirectly to governments of stronger foreign powers. Thus socialism in Latin America assumes very frequently the character of a crusade against foreign imperialism. Needless to say that in recent times the United States has been the object of most of these indictments.

On the other hand, it is perfectly obvious that increased state control and state enterprise adds to the always existing and very real danger of political corruption and the prevalence of political and military considerations over sound business policies. Public ownership of railroads in Mexico and of the oil industry in Mexico and Bolivia has created more problems than it has solved. This danger is all the more serious in countries like the Latin American where government is still in most cases the privilege of a small sector of the population, where effective control of office holders by public opinion is almost non-existent, and where political instability too often places unscrupulous military leaders in positions of almost unlimited power. Some improvement in this respect may be expected from the gradual strengthening of popular education which is making a larger number of people more vocal and more articulate and is helping them to understand their own interests and the means whereby then can be defended. Nevertheless, we cannot dismiss lightly the possibility that state control of the national economy may become the cornerstone of totalitarian, aggressive regimes, as it did in European countries. Developments in at least one country of South America seem to point in that direction.

IV. CONSTRUCTIVE WAYS OF INTER-AMERICAN TRADE PROMOTION

1. *Return to the International Division of Labor*

It should be a commonplace by now that we cannot live in an increasingly interdependent world without effective international or, better, supernational planning designed to provide peace, a minimum of business stability and opportunities of improvement of living standards for "underprivileged" peoples. Without this prerequisite, social unrest and nationalistic reactions in economic and political policies the world over, battering against the community of *basic* interests in this One World of ours, will once more create universal anarchy. This, however, could happen sooner and with infinitely greater destructiveness than it happened after World War I.

Such planning, in order to be effective, must reconcile the demand for more equitable development and utilization of the natural and human resources of relatively backward areas with the need for a greater amount of goods available to the largest possible number of consumers the world over. This can be attained only through the orientation of economic policies by the principles of comparative cost advantage and international division of labor.

It is necessary to keep in mind that this is a distinctly unpopular proposition among a very considerable segment of public opinion, not only in Latin America but also in the United States and elsewhere in the world today. It contradicts powerful vested interests which have been systematically nourished over many years in the hothouse of protectionism and price support policies. It swims against the still powerful stream of emotional nationalism which two world wars have failed to dam. Obviously, we would be committing an unrealistic oversimplification if we stated that Latin America was in favor of protectionism while the United States was ready for a return to international division of labor. Even the moderate proposals of the Truman administration for a continuation and amplification of the reciprocal trade agreement program have met with stubborn and extremely vocal resistance on the part of producer groups and members of Congress in this country. There is no prospect for the lowering of our double barriers (tariff and sanitary embargo) against fresh Argentine meat or for a decidedly more liberal admission of Cuban sugar.

On the contrary: leading wool exporting countries like Australia, Argentina and Uruguay are being antagonized, wool is increasingly be-

ing priced out of the market, and the international efforts to break a path toward reciprocal lowering of trade barriers are being jeopardized by the demand of a small group of high-cost United States wool growers for even higher tariff protection and government subsidies than they have received in the past. The United States sugar growers who, after many years of high tariff protection, bounties and other artificial stimulants proved unable to furnish more than one-third of our sugar requirements and who are as far from being able to compete with foreign sugar as ever, insist on reducing the Cuban sugar quota to less than half of its prewar maximum and demand that the United States government, through manipulation of import quotas, maintain sugar prices higher than before the war, in proportion to the increased living costs. Government bounties for United States ores are proposed in order to enable them to compete with the lower-cost output of Latin American mines. United States subsidizing of farm exports, particularly cotton, continues to be a thorn in the flesh of some of our best customers in Latin America and elsewhere. All these measures have in recent months received the approval of congressional majorities.[1] They are being taken at the expense of the masses of domestic consumers; the foreign markets for United States products; the good will of Latin Americans and other peoples toward this country; the idea of a free enterprise economy to which this country is pledged before the world; and, above all, at the expense of a constructive peace policy.

In June, 1947, Cuban labor unions protested furiously against what they described as efforts of United States interest groups to gag the Cuban textile industry, by urging the lowering of Cuban tariffs under threat of establishing subsidiary factories of United States concerns in Cuba with consequent competition that would prove unbearable to the native enterprises. This happened precisely at the time when the United States Congress was getting ready substantially to reduce the amount of sugar Cuba is permitted to sell in this country. From the point of view of economic reason it seems logical that, if we want the Cubans to buy more textiles made in the United States—textiles which are probably cheaper and better than those made in Cuba—we must be willing to enable the Cubans to pay for them by selling more of their sugar to us—sugar which is very much cheaper than that grown under the United States flag. Unfortunately, this elementary lesson of economic ABC has not been learned as yet by many of those responsible for shaping eco-

1 Additional protectionist measures for wool and continuation of wartime subsidies for mines were vetoed by President Truman in the summer of 1947.

nomic policies. As things stand now, our reduction of Cuban sugar imports into this country, already artificially limited, will force the Cubans all the more to build up their own manufacturing industries at all costs and will make things more difficult for United States textiles and other products on the Cuban market. Furthermore, this policy is likely to provoke anti-United States resentment and to contribute to large-scale unemployment in Cuba's sugar economy and, thus, to social unrest and an increased tendency toward communism.

This is only one typical example which could be multiplied all over Latin America and, indeed, the world.

It seems a shortsighted policy to spend billions of American dollars in trying to combat communism in foreign countries while at the same time refusing to relieve precisely those material conditions which foster communism—especially if such relief would also benefit the American consumer by permitting him to obtain more goods at lower prices. At present, the American people is making twofold sacrifices: First, by paying higher taxes in order to help maintain anti-Communist regimes in foreign countries and to finance countries with unbalanced economies, with little prospect of being reimbursed as long as this country is not willing to accept payment in foreign products. Second, by paying artificially high prices because of the exclusion of foreign-made goods. If we were to adopt a liberal trade policy, we would enjoy cheaper and more plentiful consumer goods[2] and we would have a better chance that our aid to foreign countries would be temporary rather than indefinite. Such a policy would produce constructive results in higher living standards abroad; it would thereby strengthen democratic, middle-of-the-road elements; it would contribute to an expansion of effective markets for United States products; and United States investors in foreign countries would receive regular returns on their capital.

On the other hand, in Latin America there is no evidence of any distinct willingness even on the part of governments to reduce barriers to international trade. As we have seen before, the trend is evidently toward more protection. While part of that trend is based on nationalistic sentiments and vested group interests, another important factor is undoubtedly the uncertainty about the future trade policies, business and political trends in the United States and in the world at large. It is important to understand that the Latin Americans, being burned children, cannot reasonably be expected to relinquish the modest degree of economic independence which they have recently attained, through the de-

2 This, of course, may have to await increased output in war-devastated countries

velopment of a more diversified productive organization, as long as their countries face the possibility of a renewal of narrow restrictive trade policies in leading consumer countries (particularly the United States), another depression which would mean another catastrophic decline of export trade and general prosperity all over Latin America, and, worst of all, another world war.

It cannot be overemphasized that the primary responsibility rests with the so-called great powers in the world of today for removing these justified causes of uncertainty, and thus to permit the growth of elementary confidence in the future stability of world economic and political policies. Such confidence does not and cannot exist at this time. In fact, there is much less of it today than there was two years ago. The key to this situation is political and not economic. The Latin American countries, being at best second-rate powers, can do nothing decisive to create that international climate of confidence which is so essential for the adoption of consistently constructive trade policies. As long as relations between the predominant powers deteriorate and the United Nations and its specialized agencies are not enabled to perform the functions for which they were created; as long as considerations of power competition outweigh economic reason; as long as expenditures for armaments are granted priority before development projects designed to improve living standards, any hope for the creation of an orderly world economy is futile.

In other words, a return to freer international trade without regional limitations will be possible only in a world which has made up its mind to build an effective global peace organization instead of seeking once more an illusory security by the conventional means of power competition and armament races. The latter course would imply, as it has in the past, a frantic attempt by all nations to promote economic independence and self-sufficiency, as necessary for survival in the next holocaust.

The United States has emerged from the last war not only without suffering physical destruction but with a vastly increased industrial output; as the strongest power in the world; as its greatest producer and consumer; and as its only large creditor nation.

Therefore, we cannot overlook the responsibility of the United States for adopting a constructive, stable and consistently implemented policy; a policy of taking the lead in creating basic prerequisites for political world order, and in giving other countries effective assurance of the willingness of this country to lower its tariffs and administrative bar-

riers to imports in return for comparable concessions. The Latin Americans and, indeed, most other peoples in the world, take the attitude that this country can afford better than they to carry out those adjustments of its economy which will result from increased outside competition and the consequent elimination of marginal domestic producers. The Latin Americans feel that their neighbors to the north have not yet attained anything like a strong and united public opinion in favor of a consistent trade policy, a policy that will be based on an understanding of the need for mutual give and take and the necessity to sacrifice minor temporary conveniences of limited groups to the basic long-range interests of peace and prosperity for all. Nothing would be more effective in preparing the ground in Latin America for more liberal economic policies than a vigorous crusade of international trade education in the United States.

Only if these conditions are fulfilled can we expect the Latin Americans to follow our lead, and to agree to limit their protectionist policy to a small and carefully selected group of domestic industries. These industries would have to be the ones which would offer reasonable prospect of being able to stand on their own feet in a near future, and not likely to become permanent burdens on the public treasury, the consumers' pocketbooks, and the national welfare.

There can be no doubt that the policy of Reciprocal Trade Agreements with the most favored nation clause, fortified by an effective machinery for international coordination as now envisaged in the International Trade Organization, should be continued and amplified. In this respect, the following recommendation should be heeded: "Both in the negotiation and in the appraisal of these agreements, emphasis might well be placed less on the concessions obtained from other countries and more on the reductions affected by this country. If the record of the past proves anything, it is that other countries have consistently tended to purchase American goods and services in larger and more regular volume than the United States has bought of foreign goods and services and that the major handicap to exports has not been trade restrictions abroad so much as the underlying shortage of dollars. The latter difficulty will be intensified unless the United States renders possible a freer flow of imports."[3]

This is borne out by the fact that, in regard to most of the Latin American countries with which we signed trade agreements before World War II, our exports to them increased more substantially than

3 U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce: *The United States in the World Economy*. Washington, D. C., 1943, p. 22.

our imports from them, after such agreements became effective. In other words, these agreements may have helped United States producers to sell more in Latin America but they did not help the Latin Americans to lay the basis for sustained larger purchases of United States goods, through an increase of their exports to this country.

The figures in Table XVIII are based on a comparison between the average values of the periods 1934–35 and 1939–40.

TABLE XVIII

DEVELOPMENT OF U. S. COMMERCE WITH TRADE AGREEMENT COUNTRIES IN LATIN AMERICA

Trade Agreement Countries	Agreement Effective on	Percentage Change of U.S. Exports	Percentage Change of U.S. Imports
Cuba	Sep. 3, 1934	+58	+15
Haiti	June 3, 1935	+46	+179
Brazil	Jan. 1, 1936	+127	+11
Honduras	Mar. 2, 1936	+13	+18
Colombia	May 20, 1936	+136	−1
Guatemala	June 15, 1936	+121	+104
Nicaragua	Oct. 1, 1936	+110	+31
El Salvador	May 31, 1937	+49	+86
Costa Rica	Aug. 2, 1937	+292	+38
Ecuador	Oct. 23, 1938	+137	+30
Venezuela	Dec. 16, 1939	+246	+50

Source: U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Trade Agreements Unit, Release of March 4, 1943.

2. *Renunciation by Both the United States and Latin America of Claims of Preferential Hemispheric Treatment*

There has been a marked tendency in both major sections of the western hemisphere to extend the inter-American system to the economic sphere by granting goods originating in other parts of the hemisphere preferential treatment, and by exempting nationals and capital investments of other hemisphere nations from restrictive legislation governing foreigners. We have briefly considered in a previous part of our study arguments which seemed to us to speak against such a policy. Basic conditions and requirements of our time point too definitely toward the need for global organization—political, economic, social and cultural—to permit us to be satisfied with anything less.

We should therefore consider our economic relations with our neigh-

bors in the western hemisphere as an integral part of a world-wide policy. We should neither claim any exclusive privileges for our trade or investments in Latin America, nor should we be willing to grant such privileges to the Latin Americans. Only thus can we ask other, non-American powers to liquidate existing preferential systems and to grant American capital and investment equality in certain parts of the world where they do not enjoy it at this time. For instance, it would be inconsistent to press for special favors for United States imports in Argentina and Brazil over British goods while claiming the elimination of preferential treatment now granted British goods in some of the dominions.

One exception to this rule is Cuban sugar, in view of the long special relationship which has existed between the United States and Cuba ever since that island gained its political independence. North Americans were largely responsible for making Cuba's economy dependent upon sugar-growing and export. That economy cannot exist today without sizable sales to the United States. As long as the United States is unwilling to abolish its uneconomical protection of domestic sugar producers, it cannot fairly ask the Cubans to share their limited quota of sugar imports to the United States with other non-United States producing countries on a basis of equality.

3. *Continued Inter-American Cooperation for Development Projects in Latin America*

Large-scale projects designed to increase productive facilities in Latin America have become so prominent during the past ten years and more that their abrupt termination at this time would be a staggering blow at the stability and continued development of the Latin American countries. In 1945 the Office of the Coordinator of Inter-American Affairs estimated the requirements of the Latin American republics of equipment for new plant capacity and replacement at $4,032,000,000, during the first ten years after the war. According to the Inter-American Development Commission the total investment needs of Latin America in the first postwar decade will amount to roughly $12 billions, only one-half of which can be expected to come from domestic sources.

It is evident that the private capital now available for long-term investments in Latin America is not sufficient to carry out large projects which do not promise exceptionally attractive returns in a near future. Private capitalization from abroad, and that means chiefly the United States, wherever feasible, is certainly preferable to public financing.

However, in many cases this will be out of the question because of the poor record of several Latin American nations in regard to their foreign debt services, the difficulties encountered by direct investors in transferring profits earned in certain countries to the south, and the character of most of the large development projects. In certain cases no immediate sizable profits can be expected. In others, the Latin Americans themselves hesitate to turn certain new industries or public utilities over to foreign private corporations. On the other hand, private United States capital now seems to prefer direct investment opportunities in Latin America, with at least partial control of the enterprises concerned, to investment in foreign government securities.[4]

This means that projects of this nature will have to be financed in any of the three following ways: (1) by national governments (including national, state, provincial and municipal governments), (2) through cooperation between a Latin American government and the United States government, or (3) through an international agency.

The first type of financing is not really basically different from the two others. The limited taxation power of Latin American countries and the necessity of avoiding any intensification of the already existing inflationary trend sets definite limits to the financing power of any of the national governments. In the long run, those governments will have to turn either to the United States or to recently created agencies of the United Nations for assistance.

The second arrangement was the one most used during the recent war, often in cooperation with Latin American government agencies. The Export-Import Bank of Washington, D. C., the United States Treasury Department, the United States Department of Agriculture, the United States Commodity Credit Corporation, and other similar agencies, some of them created especially for this purpose, financed projects in the field of agriculture, mining, manufacturing, and transportation in order to help increase the output of strategic raw materials in Latin America and of consumer goods and capital goods for the Latin American countries themselves. At present, and in the future, the type of projects to be undertaken will be different in many cases, but the need for this kind of planning for development continues. It is obvious that any planning along these lines must be done with considerably more attention to economy and to the possibility of realizing

[4] See *The First Hemispheric Stock Exchange Conference*, sponsored by the Inter-American Council of Commerce and Production, September 15–18, 1947, by Joseph W. Romita, pp. 3, 4.

profits than was often deemed necessary under the pressure of the war emergency.

How much it will be possible to do with this type of investment will depend largely on the trend of public opinion in the United States toward Latin America, the mood of the United States Congress, and the extent to which inter-American development projects will have to compete with rehabilitation and development projects for Europe and Asia.

It was probably this feeling which prompted several Latin American delegations at the Chapultepec Conference in 1945 to urge once more the creation of an Inter-American Bank. This bank would make long-term loans for development programs more readily available to Latin American countries than they could expect to obtain from the new International Bank for Reconstruction and Development. This proposal was turned down by the United States delegation. Quite recently the idea was revived in a forceful manner by Ramón Beteta, Mexican Secretary of Finance and an influential economist, in an address before the United States National Foreign Trade Convention. (*Journal of Commerce*, New York, Oct. 22, 1947.)

It is entirely possible that Latin America will have to take second or third place, in relation to long-term loans, after areas which have tremendously suffered during the war, whose needs therefore appear more urgent and which loom larger in the current international scene because they appear to be threatened more immediately by Soviet or Communist encroachment. On the other hand, if the world political situation should further deteriorate, in the next few years, into a definite division of two antagonistic spheres, Latin America will again receive preferred treatment by the United States as an indispensable partner in Western Hemisphere security. In this case we will probably be ready to support almost any plan of economic development which will be urged on us by Latin American governments, including some whose justification from a purely economic point of view may be doubtful.

The development of plans for European rehabilitation under the "Marshall Plan," in the second half of 1947, has provoked more insistent demands on the part of representative Latin Americans for a similar plan for their area. Such demands will undoubtedly be voiced again at the Pan American Conference in Bogotá, in March, 1948, and at the Inter-American Economic Conference which is scheduled for the latter part of 1948.[4a]

[4a] It would be premature at this time to try to appraise the full implication of the Marshall Plan with reference to inter-American economy.

The estimates submitted by the sixteen European nations envisage large amounts of foodstuffs and raw materials to be supplied by Latin America.[5] If these needs are to be met over the next four years it will be necessary for the United States to finance a considerable portion of such transactions, and to render assistance in the modernization and expansion of inadequate transportation and production facilities in Latin American countries. It seems doubtful that this will be possible soon enough, inasmuch as Latin American demands have to compete with the needs of the United States as well as those of Europe.

As to the third possibility, that of long-term financing through international agencies, we may recall the insistence of the Latin American governments at the preparatory conferences for the financial and economic agencies of the United Nations in 1945, that such agencies should not only serve the rebuilding and rehabilitation of war-devastated areas but should from the very outset be prepared to aid economically little advanced countries in raising the living standards of their population. The major role in this respect falls to the International Bank for Reconstruction and Development of which all the Latin American countries are members. It can probably be said that one important test of the efficacy of the United Nations, from the point of view of the Latin Americans, will be whether that organization, with its specialized agencies, will be willing and able to make important contributions to this end in the near future. Whether this will be possible will depend on the general development of international political relations. If the present drift back toward unlimited power politics centered around two predominant power blocs should continue, and if thus the spectre of another world war should be intensified, it seems very unlikely that the United Nations or any of its agencies could acquire real importance. Under these circumstances the International Bank for Reconstruction and Development could hardly expect to raise adequate capital resources through the sale of its debentures on the United States capital market, as its stability and financial soundness would be open to very serious doubts. Yet, this would be necessary in order to enable the Bank to underwrite large-scale development projects in Latin America.

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5 According to *World Report* (October 28, 1947, p. 11), "meeting Europe's request would require Canada and Latin America to step up their shipments to the Marshall Plan area 25 or 30 per cent above 1946 levels."—Secretary of State George C. Marshall testified before the Senate Foreign Relations Committee, on January 8, 1948, that of the initial appropriation of $6.8 billions, for the first fifteen months, between $2,000,000,000 and 2,500,000,000 would be spent for goods bought in Latin America. (*The New York Herald Tribune*, Jan. 9, 1948, p. 14.)

On the other hand, if we should succeed in laying a sound groundwork for a constructive system of world organization in the next few years, the International Bank would be the logical agency for financing projects which by their nature cannot be expected to appeal directly to the average private investor. Such projects should be sponsored on a truly international basis in order to avoid the impression of undesirable interference by one great commercial, industrial and political power in the affairs of smaller or weaker nations. The tremendous potentialities of this type of international planning, particularly in fields like soil conservation, irrigation, drainage, flood control, production of hydroelectric power, sanitation of tropical areas, transportation, large-scale settlement and colonization have hardly been investigated in application to many promising regions of Latin America.

One of the first projects of UNESCO (United Nations Educational, Scientific and Cultural Organization) calls for research into the possibilities of improving living conditions in the Amazon basin—probably the largest and potentially one of the most promising unexplored regions in the world today.[6] Specialists from four European countries and the United States will join with experts from the six South American countries directly affected. It is to be hoped that international research like this, embracing both the physical and social environment, will be undertaken in other instances, and that it will be carried out in such a way as to provide sufficiently concrete and exact data to serve as basis for long-term development enterprises.

It has been pointed out before that United States participation in large scale development projects in Latin America will have to be prepared to admit a considerable degree of control by Latin American governments. However, the foregoing discussion should not cause the impression that there is no future in Latin America for farsighted private enterprises. A most interesting initiative, which deserves serious attention, has recently come under way in Brazil and Venezuela. It is the American International Association for Economic and Social Development financed chiefly by Mr. Nelson A. Rockefeller, formerly Assistant Secretary of State for Latin American Affairs and Coordinator of Inter-American Affairs, and his brothers. This Association will, for example, undertake projects designed to improve nutrition and agricultural production through training of technicians and teachers, sale of fertilizers and hybrid seed corn to farmers, demonstration farms and irrigation, combat

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6 See, for instance, Earl Parker Hanson, *The Amazon: A New Frontier?* New York: Foreign Policy Association, 1944. (Headline Series No. 45.)

plant and animal diseases, and modernize the marketing and processing of agricultural products. It will also promote greater utilization of the enormous fishery resources of the coastal waters of Latin America. Thus it will provide higher incomes to the producers and better and more ample supplies at lower prices to the low-income masses of city consumers and create, in both cases, better health, higher productive capacity, more purchasing power, and demand for a greater variety of goods.

The most challenging aspect of the project is perhaps its method of financing, through private sources. It is based on the idea that the private enterprise system can survive only if it proves that it is willing and able to contribute directly to the well-being of economically backward peoples through long-term planning; and that it is good business for private capital to invest considerable funds in enterprises designed for this purpose. The Rockefellers have so much confidence in the economic soundness of their initiative that they expect "ordinary" business corporations to take over these projects after a while on a self-supporting basis. The Venezuela Basic Corporation, which is part of this campaign, is partly financed by United States and British-Dutch oil companies operating in that country.

Similar, though less comprehensive, plans have been advanced in recent years by the United Fruit Company, the largest single business concern in Central America. The Company has founded and maintains an agricultural training school for Central Americans and aids small farmers in growing marketable commodities for their own account.

Vast and potentially productive areas have recently been opened to systematic settlement and commercial production, through the building of highways and railroads and the advance of air transportation. Those areas require long-term investments for adequate development. They include parts of the southwest of Brazil, the eastern lowlands of Bolivia, the eastern slopes of the Andes in Peru's "montaña," and regions in Central America near completed stretches of the Inter-American Highway. Aside from the production for the growing domestic markets, there are good prospects for expansion of exports of such commodities as silk from Brazil and Chile, flax from the highlands of Peru, wine from Argentina, Chile and Peru, fresh fruits from Argentina and Chile, dairy products from Argentina and Uruguay, abacá and other fibers from Central America and the West Indies, cacao, oil-bearing nuts and plants, insecticides, balsa, and hardwoods from various tropical countries. Tourist trade from the United States shows promise to develop

into a major industry with the improvement of means of transportation and hotels.

Sir John Boyd Orr, in a recent article[7] warned that "we must not deceive ourselves by assuming that the present food shortage will end with the 1948 harvest. The shortage will continue for many years. It is estimated that, taking account of the anticipated increase in the population of the world, food production will have to be increased in the next twenty-five years by 110 per cent to provide enough food for the whole population of the world."

The Food and Agricultural Organization of the United Nations, in a recent report on the world food situation,[8] after calling attention to the still prevailing desperate food shortage in large areas and "the chronic malnutrition of half the world's population," pointed at Latin America and Africa as "two safety-valves for relieving the growing pressure of world population upon the world food supply. . . . Both continents are sparsely populated, with great undeveloped or partially developed land resources. Both could produce food far in excess of their own needs. The possibilities are as yet unexplored and uncomprehended."

In so far as most of Latin America is concerned, this is true. However, in order to bring those enormous possibilities closer to realization, six principal elements are indispensable:

(1) Additional capital for providing basic requirements for more economic production, transportation, and marketing, as well as better health, housing, nutrition, and education;

(2) Immediate inception of systematic and comprehensive measures of reforestation and soil conservation designed to remedy soil erosion which is now threatening ever wider areas of Latin America, and is likely to spread even faster with the extension of highways, unless counteracted by such measures;[9]

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7 "Program to Meet the World's Food Crisis." *New York Times Magazine*, September 9, 1947, p. 9.

8 *The State of Food and Agriculture: 1947*. Prepared for the Third Session of the Conference of the Food and Agricultural Organization of the United Nations, Geneva, August 25, 1947, pp. 18,2.

9 See in this connection the most timely and impressive expert warnings of William Vogt: *Report on Activities of the Conservation Section, Division of Agricultural Co-operation, Pan American Union, 1943–1946* (1946); studies on the population and natural resources of Costa Rica, El Salvador, and Venezuela (1946), all published by the Pan American Union, Washington, D. C.; "Comment on Forest Products in Latin America," *Journal of Forestry*, vol. 45, No. 9, 1947, pp. 686–687; and *Informe de la Comisión del Consejo Directivo de la Unión Panamericana relativo al programa de la Conferencia Interamericana sobre la Conservación de los Recursos Naturales Renovables* (1947).

(3) Additional labor supply which in most cases can be had in the foreseeable future, only through immigration—an expedient which would seem particularly appropriate and beneficial for all concerned, when we consider the plight of the millions of displaced or otherwise destitute persons in war-ravaged Europe, whose working capacity is permitted to go to waste because of the utter lack of constructive and concerted plans for their resettlement;

(4) A reasonably attractive and stable price level for agricultural products on the export markets;

(5) Balanced economic policies of Latin American countries which should avoid overemphasis on industrial development, thereby draining labor supply away from the agriculture and pushing agricultural production costs too high; and

(6) A favorable political climate, both internal and international.

4. *Long-Range Agreements on Controversial Issues*

One conclusion which can be drawn with all certainty from the preceding brief and necessarily incomplete discussion is this: the future development of inter-American economic relations is a vital part of world organization and of United States policy. It must not be left to the haphazard working of unforeseen forces and to the improvisation of shifting policies by inadequately trained government functionaries. That policy, as well as any other aspect of our external economic, cultural, and political relations, would be safer if it could be made the concern of a much larger segment of the people. Indispensable for this is (a) a clearer understanding of the importance of the Latin American nations to us as indispensable partners in the vital enterprise of building world peace; (b) a better realization of the fact that more liberal trade policies toward Latin America are necessary for business stability, expanding production, and cheaper and more plentiful consumer goods in this country; and (c) much more thorough knowledge of essential aspects of the countries to the south of us and a more sympathetic understanding of their viewpoints.

This last objective has too often been interfered with by superficial and unbalanced reporting and interpretation of Latin American news in this country by journalists and commentators and by sensational partisan pronouncements of certain politicians.

What we need increasingly in our relations with Latin America is guidance of public opinion, government and business policies by impartial men truly representative of their peoples. Men who are will-

ing to let their judgment be guided by considerations of those basic interests which we have in common, by the welfare of the public instead of small groups, and by the findings of applied science instead of nationalistic emotions. In other words, we definitely need a more prominent participation by experts who are equally removed from the two extremes of merely sentimental "do-gooding" and the so-called "realism" of sterile routine diplomacy; persons who should not be subject to either political or business influences, and who can formulate basic lines of policy which will appeal to the common sense of the peoples concerned.

A promising start in this direction was made in 1946 with the First Meeting of Technicians on Problems of Central Banking of the American Continent (Western Hemisphere) held in Mexico City and the formation there of a Permanent Committee of Inter-American Central Banking Technicians.

The most significant aspect on which a long-term agreement based on expert study and mutual concessions must be reached is *the future of United States capital investments in Latin America.* In this respect, both parties have reason to complain on the basis of past experience. The Latin Americans, as we have seen, have resented what they have described on many occasions as onerous conditions for loans extended their governments through United States and other foreign banks in the 1920's; the discriminatory treatment of Latin Americans by foreign corporations; and the meagre benefits accruing to Latin American countries from foreign exploitation of their human and natural resources.

Foreign investors in Latin America, on the other hand, have reason to complain of the almost universal default of public debts by Latin American governments since the early 1930's which was not always followed by readiness to resume debt services when economic conditions improved; of restrictive policies directed against foreign enterprises which often interfered quite seriously with the sound economic standing of such enterprises; and of certain cases of more or less outright expropriation which sometimes came close to confiscation.

Latin America needs foreign capital today as much as ever. On the other hand, foreign capitalists should be ready to recognize that Latin America is a potential field for future investments which probably offers more attraction than any other major area of the world outside of the United States at this time. However, this will be true only if foreign investors go into that field with a full understanding of certain basic conditions which must be met. The most important is perhaps the willingness of the foreigner to contribute to the lasting welfare of the

country in which he expects to make a profit; to recognize that people of economically less advanced countries will not stand any longer for discriminatory treatment; that United States corporations operating in Latin America must expect to deal with "native" labor on essentially the same basis as that to which they are accustomed at home; and that the best protection against nationalistic reaction is full cooperation with Latin American capitalists and governments.

In this last respect significant developments have taken place within the last few years. A number of prominent United States corporations in such fields as electrical equipment, agricultural machinery,tires, chemicals and pharmaceuticals and others participated in the establishment of plants for assembly or production in Brazil, Colombia, Mexico and elsewhere, in conjunction with both private and public capital from Latin America. In most cases the majority of the stock is held by Latin Americans. Such firms are incorporated under the laws of the respective Latin American nation. Sometimes existing small and anemic plants, domestically financed, are used as nuclei for such more ambitious enterprises. A similar set-up is now being developed for the construction and management of a chain of hotels in Latin American cities and resort places.

It is evident that considerable mutual benefit can be expected from these arrangements. To the Latin Americans they provide the necessary capital, the experience and skill of technicians and business executives from the United States, and the opportunity to take advantage of the most recent advancements of technology. They also give them an opportunity to have young nationals trained for responsible positions in industry. To the North Americans they provide opportunities for profitable long-term capital investments, access to promising and rapidly expanding markets which otherwise would be practically closed to them through protectionist tariffs, and, quite often, a virtual monopoly on such markets because of the existing tariff and administrative protection which drastically reduces competition.

Of course, we should never lost sight of the fact that it is not enough that foreign loans to Latin America and private United States capital in that area be invested in productive enterprises and that such loans and investments stimulate production. In order to make regular debt service and transfer of earnings possible, they must also stimulate exports—directly or indirectly. And this depends, to a large extent, on the willingness of this country to admit larger imports and on the development of the international scene in general.

The creation of an atmosphere of mutual confidence which is so

necessary for the promotion of foreign capital investments could be stimulated through the adoption, by the governments of all American republics, of a code for the protection and regulation of foreign investments. Such a code should contain clear definitions of the rights and duties of the investors and of the countries in which such investments are made.[10] This matter could well be made a topic at the Inter-American Economic Conference which is scheduled for 1948.

Another very important subject of study concerns *the lines of production which deserve promotion in Latin America.* It seems high time to call a halt to the overoptimistic trend of opinion which has made its appearance not only in Latin America but even in the United States and which pronounces itself almost indiscriminately in favor of industrialization of Latin American countries. A favorite argument of this school of thought is that industrialization promotes higher living standards and that, while certain export industries in countries of older industrial development may be expected to suffer, others and more important ones, particularly those producing machinery and other capital goods and more specialized and higher priced consumer goods, will see their sales to Latin American countries expand because of the increased purchasing power which is bound to follow in the path of industrialization.

This argument assumes that any industrialization creates higher living standards and thus enables people to buy a greater variety and quantity of consumer goods. However, this will happen only if new industries produce and sell at prices not higher than those of imported articles. It is reasonable to admit that young industries in young countries cannot be expected to produce from the very beginning as cheaply and as efficiently as more highly developed ones with vastly greater experience, in countries of long industrial development. Yet it is important to distinguish between those industries which can reasonably be expected to be able to stand on their own feet after a few years and those which will require tariff protection or subsidizing by government and the consuming public indefinitely, because of their unfavorable cost basis due to inconvenient location of raw material supplies, strictly limited demand, inadequate labor supply or other causes inherent in the

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10 Proposals in this connection were made by the Second Plenary Meeting of the Permanent Council of American Associations of Commerce and Production in 1944. (*Policies* adopted by the Meeting, Washington, D. C.: United States Committee to the Permanent Council, n. d., pp. 10–12.)—See also Chapter III, Article 12 ("International Investment for Economic Development") of the Geneva Draft of an International Trade Charter (1947).

national economic structure.[11] For example, it must be very seriously doubted if every one of about half a dozen Latin American countries which are now feverishly engaged in creating steel industries of their own can hope to see those industries stand on their own feet economically in the calculable future. It is easy to see how excessive prices charged for a basic material like steel will reflect throughout the economic life of those countries and will contribute to pushing up the general price level, thus endangering the competitive position of Latin American export articles in the world market.

Another danger is presented by the fact that any industry once created, even with the understanding that it will enjoy protection only for a limited period, as an "educational" measure, is likely to insist on an indefinite continuation of such protection, as is borne out by many costly experiences in countries all over the world. In actual practice there is hardly such a thing as graduation of an industry from the stage of educational protection into the mature life of free competition, or even less, the abandoning to its fate of an industry which has clearly demonstrated its inability to survive free foreign competition.

This complex of problems, perhaps more than any other, is exposed to the pleading of special and powerful interest groups and has an emotional appeal which makes rational decisions on the basis of economic reason exceedingly difficult. This is one more reason why a comprehensive and at the same time detailed study of industrial development possibilities in Latin America by a group of well-qualified, impartial specialists representing all countries concerned and removed as much as possible from political and special business interests appears to be an absolute necessity. This might be a first step toward the formation of a

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11 The Permanent Council of American Associations of Commerce and Production declared in 1944: "Acceleration of the industrial development of Latin American countries—while correcting dangers of 'one-crop' culture and raising the standards of living of the population—has its natural limits. . . . For the purpose of consolidating such industrial progress distinction must be drawn, in each country, between industries capable of normal establishment and those emergency industries set up under the exceptional circumstances of war and still further, those other industries the survival of which is possible only by means of special cooperation between groups of countries. . . . The Council therefore recommends: That in postwar protection of industries only those be favored which offer sufficient vitality to establish themselves. . . ." (*Policies Adopted by the Second Plenary Meeting of the Permanent Council of American Associations of Commerce and Production*, Washington, D. C.: United States Committee to the Permanent Council, n. d., pp. 7–8.) This statement is particularly interesting because it came from a private, inter-American group of industrialists. Unfortunately, there is little if any evidence of its having been implemented since the end of the war.

public opinion throughout the Americas in favor of a balanced development of hemisphere resources taking into account all legitimate aspirations of all the peoples concerned.[12]

Recent trends in Mexico and other countries to the south show a dangerously exaggerated preoccupation with development of industries coupled with a comparative neglect of agriculture.[13] Some of our neighbors seem to forget that industries in their countries for a long time to come will depend on the rural population as customers. As long as the bulk of that population lives practically on a subsistence level and its purchasing power is therefore negligible, the internal market for industrial products will be extremely restricted. An anemic peasantry—both physically and economically—cannot support a growing industrial superstructure. Nor can the absorption of part of the rural population into industrial pursuits, with a consequent decline of the output of foodstuffs and raw materials and higher living costs for the urban population, improve the situation. This was demonstrated in Venezuela and Mexico. This course only creates a vicious circle of inflated prices in which industry and agriculture chase each other.

A truly constructive long-term policy of economic development would start from the assumption that the basis of most Latin American economies inevitably is, and will continue to be, agricultural; that, therefore, its first concern must be raising the productivity of that branch; that cheap supplies of seeds, fertilizers, implements, machinery, furniture, clothes, medicines, etc., for the rural population are essential for this, even though they have to be imported if the national product is too expensive; and that the development of ambitious industrial development projects should wait until adequate purchasing power for such industries by the agricultural segment of the national economy is assured, thus providing better prospects for relatively large-scale production and a more favorable cost structure.

In some cases the present trend toward accelerated industrialization

12 Another, closely related topic for study and discussion would be the possibility of an inter-American pact under which all governments would obligate themselves to adopt legislation against the operation of trusts and cartels within their borders.

13 A prominent Colombian daily paper recently accused Colombian manufacturers of importing raw materials which they should buy domestically and asserted: "Now we face the problem of how it is possible to extend, to agriculture, the prosperity of the protected industries which are going to be even more protected." It pleaded for "extending, to all Colombians, the superprotection which they [the transforming industries] are going to enjoy, in order to see whether agriculture will at last be launched on the path to prosperity." *El Liberal* (Bogotá), No. 3,355, November 3, 1947.

suffers from a lack of balanced planning. While some governments are willing to invest relatively enormous amounts of capital in ambitious projects of heavy industries, they plead lack of funds when asked to undertake effective agrarian reforms, sanitation, rural electrification, irrigation, land reclamation and conservation, experimentation with and introduction of improved varieties of crops and livestock, planned settlement and immigration, and projects designed to train the rural population in modern methods of cooperative production and marketing and in healthy living, home economics, and domestic crafts. While lip service is paid to all these pressing tasks, comparatively little is being done in actual practice. In observing these trends one is sometimes reminded of the long-standing tendency of Latin American governments to erect, with enormous expenditures, impressive but not very useful public buildings in their capitals, while leaving their small towns and countrysides in want of even the most elementary necessities. One can only hope that the same disproportion will not be permitted to develop between showy but unprofitable industries and the agricultural pursuits on which the people depend for their basic needs.

We have expressed ourselves previously as opposed to preferential agreements designed to create a trade monopoly of Pan-American nations in the Western Hemisphere. No such system of preferential treatment is needed to stimulate United States exports to our neighbors to the south. Our general policy should aim at all-round expansion of trade through promotion of living standards and productive power rather than at artificial exclusion of potential competitor nations from that market. Some competitors of prewar times, such as Germany and Japan, have already dropped out. It is quite possible that we shall have to permit them at least a partial return if we expect them to feed their dense populations without continuous support by United States taxpayers. In this respect, the surprisingly quick return which Germany's export trade staged after the defeat of the first world war in Latin America is worth remembering. On the other hand, the infinitely larger destruction wrought by the last war in Germany and her loss of important raw material resources would probably preclude an early comeback at this time. Also, the rebuilding of the German merchant marine, in the past an important contributor to the international balance of payments of Germany, can be expected to be more difficult and slower this time.

More intensive competition in Latin America—one of the very few major markets of increasing purchasing power in the world of today—must be expected on the part of Britain, Belgium, Holland, Sweden,

Switzerland, Canada and, possibly, France, Italy,[14] and Czechoslovakia, in view of the intensified need especially of Britain to expand her exports in order to be able to maintain her imports on a level commensurate with the needs of her consumers.

The British drive not only to reconquer their export markets but to expand them over the prewar status, has produced some remarkable results in Latin America. British exports to Brazil in 1938 were £5,185,294; in 1945 they had dropped to £3,426,284; in 1946 they increased to £11,812,459. The last figure is certainly influenced by the accumulated demand for imported goods and does not necessarily offer a standard whereby to measure Britain's long-range competitive power. Nevertheless, it does speak highly for the British ability to cater to an important export market under difficult conditions. However, British purchases from Brazil increased even more than her sales to that country, and so did, consequently, Britain's unfavorable balance of trade. British imports from Brazil were £7,661,315 in 1938, £21,408,810 in 1945 and £21,833,399 in 1946.[15]

The transfer of the Argentine railways from British to Argentine ownership will probably cause the Argentines to turn to the United States for the purchase of equipment, and this will cause a noticeable loss to British export interests. The same is true in connection with the liquidation of British holdings of public utilities in several parts of Latin America.

In certain fields, such as automobiles,[16] agricultural machinery, business machines, machine tools, and electrical supplies, the position of the United States is so strong that it has little to fear from competition on a free market. On the other hand, an important and as yet uncertain factor is the availability of dollar exchange, particularly in those countries of Latin America which have not had a favorable balance of trade with the United States before the war and cannot expect to have one in the near future. For example, whether Argentina and Uruguay will be able to expand their imports of United States goods will depend on the possibility of restoring the triangular trade relationship which existed in for-

14 A remarkable revival of industrial exports from Italy to Uruguay was reported in the fall of 1947—after Uruguay had exhausted her war-accumulated dollar exchange in the United States.

15 Figures according to *The Statist*, London, quoted in *Brazilian Bulletin*, New York, July 15, 1947, p. 6.

16 According to Emilio Lopéz Frugoni, a delegate from Argentina to the General Assembly of the Inter-American Federation of Automobile Clubs and former Chief of the Argentine Public Roads Bureau, at least 2,500,000 cars are needed in South America for replacement. (See "Automobiles: Shortage," *The New York Times*, September 11, 1947.)

mer times between them, Great Britain, and the United States. This in turn will depend on whether multilateral world trade will be restored or whether the British will be forced to shut themselves indefinitely in a system of "soft" currency which would probably be implemented with barter trade agreements with other parts of the world.

Of course, dollar exchange would be more plentiful in some countries to the south, and consequently sales prospects more favorable, if we should resume stockpiling of "strategic" raw materials, such as tin, copper, lead, uranium, vanadium, wolfram, and antimony, for defense purposes.[17]

5. *More Intensive Training for Inter-American Work*

Aside from these fundamental factors which cannot be determined with anything like certainty at this time, there are certain measures which can be expected to contribute to an increase of inter-American trade under more or less normal conditions. There is still vast room for improvement in regard to inter-American credit practices, marketing techniques, commercial propaganda, selection of business representatives, customs procedures, travel formalities, including the expensive nuisance of passports and visas, cumbersome currency transfers, etc. Insufficient attention has frequently been paid to local consumers' habits and tastes and to particular packaging needs. Complaints from Latin Americans that North American firms are unwilling to extend to foreign customers more favorable credit conditions such as European firms are willing to do, are frequent. Until recently the prevailing type of representatives of United States firms in Latin America was in many cases unsatisfactory. Relatively very few North Americans were willing to make their homes in the countries to the south and stay there long enough to acquire an intimate knowledge and understanding of their environment and to establish those personal relationships based on mutual sympathy and trust which are so essential for business success in Latin countries. High pressure sales methods often defeated their purposes and inadequate willingness to make concessions to local customs did incalculable harm to North American export interests in that area.

This brings us to a requirement whose importance can hardly be overemphasized: the need for more adequate education of both North and Latin Americans for effective work not only in the field of trade promo-

[17] According to recent newspaper reports, stockpiles are now being accumulated. Among the important Latin American export commodities affected thereby are petroleum, tin, molybdenum, tungsten, copper, platinum, wool, cork, leather, mahogany, and natural rubber. ("U. S. Steps up Stockpiling of War Materials." *New York Herald Tribune*, October 19, 1947.)

tion between American countries but also in such fields as technology, agriculture, social work, and sanitation, as applied to Latin America. Training is needed not only on the "higher" level but, perhaps even more urgently, in the "know-how" of industrial techniques, mechanical arts, sanitary practices, etc., for foremen, workers, farmers, and elementary school teachers in Latin America.

In all these fields we need North Americans willing and able to learn the languages of Latin America for actual use, to become thoroughly acquainted with the needs, traditions, customs, and idiosyncrasies of those people in order to be able to make real and lasting contributions to our common welfare. Only too often has it become evident in the recent past that even the best engineers, agronomists, and efficiency experts from the United States will be of little use in countries whose language and special conditions they do not know. What is needed is much more than hasty and inevitably superficial training courses. A thorough acquisition of essential facts and techniques is necessary; but this, in order to be useful, must be accompanied by the creation of positive human attitudes and relationships with peoples of different races, cultures, and nationalities, on a working, every-day basis.

A promising start has been made in this respect with the introduction of special courses and curricula in a number of United States colleges and universities and with the establishment of at least one institute especially devoted to this task. An increasing number of summer schools for North American students in Latin America are also welcome contributions in this respect. Sizable numbers of young Latin Americans have come to United States colleges and graduate schools, and some also receive practical training in certain trades.

Yet, much more remains to be done. Even today we do not have in this country one center of Latin American studies as well equipped and staffed as were at least two such centers established in Germany as early as the 1920's. Social research in Latin America, in cooperation with specialists of the countries concerned, developed during the last war. However, much of it was sporadic and it is far from being adequately supported to meet the pressing needs for better information in such fields as basic and agricultural economy, market analysis, transportation, rural development, colonization, etc.[18]

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18 For a more detailed discussion see the following articles by the author: "Inter-American Cooperation between Social Scientists," *The Social Sciences in Mexico and South and Central America* (Mexico, D. F.), I, 2, 1947; "Problemas de investigación en el terreno de la sociologia y la ciencia política de la América Latina," *Revista Mexicana de Sociología* (Mexico, D. F.), IX, 1, 1947; and "A Higher School of Latin American Studies—A Step Overdue," *The Inter-American Quarterly* (Washington, D. C.), III, 3, 1941.

But perhaps even more important than providing facilities for formal learning and research is the need for the strengthening and widening of contacts between individuals. Tourist travel is by no means sufficient for this purpose. Under certain circumstances, when undertaken without adequate preparation, it can do and has done more harm than good, from a psychological point of view. More productive of real understanding would be a more intensive exchange of students and teachers, provided the visitors are willing and able to share the every-day life of their host countries; and frequent meetings of businessmen, professionals, artists, scholars, journalists, and other persons with common vocational or intellectual interests from various countries of the Western Hemisphere. Such meetings would not necessarily have to conform to a strict agenda but should provide ample opportunity for a meeting of minds by means of informal discussions of diverse experiences and viewpoints.

In the last analysis, efforts in this direction, more than anything else, could be expected to contribute towards a better understanding, and thus to provide a solid basis for ironing out conflicts and arriving at a settlement of economic problems which otherwise will become an increasingly disturbing and potentially destructive element in inter-American relations.

Conclusions

It seems unlikely that we shall be able to induce our neighbors to the south to give full rein to free international trade and to the free private enterprise system, whose benefits most of them have never tasted in the past. The best we can hope to achieve is a long-term understanding which would preclude an excess of uneconomical protectionism, anti-foreign legislation and governmental regimentation, while satisfying the Latin American demand for a minimum measure of guarantee against the abuse of economic power by strong concentrations of capitalist enterprises, national or foreign. Such an understanding would have to rest on the following basic assumptions:

a) The maximum development of the human and natural resources of Latin America is in our best interests as much as in that of the inhabitants of that area.

b) Such development cannot be attained in any foreseeable future without considerable participation of outside capital, technical skill and experience, and additional manpower.

c) The Latin Americans are entitled to the major share in the advantages accruing from development projects.

d) The predominance of any one foreign nation by virtue of its overwhelming economic power is undesirable because of the nationalistic reaction it would inevitably provoke.

e) Certain differences in basic economic policies between Latin and Anglo-Americans, especially in regard to the role of the state in economic life, will have to be accepted and reconciled through mutual concessions.

f) For the success of long-range economic development projects, whether they be financed by nationals or foreigners or whether they be undertaken by private, public or mixed concerns, it is absolutely indispensable that they produce better living standards for the masses of the peoples. If they fail to do this, social conflicts will be intensified, socialist and nationalist tendencies will grow, political extremists of both fascist and communist persuasion will become more powerful and growing political instability will jeopardize the future of business enterprises in the entire area.

g) It would be utterly unrealistic and futile on our part to attempt to convince the Latin Americans of the necessity of liberalizing the international exchange of goods, capital, and manpower unless we ourselves are determined not only to do the same but to take the lead in this respect by providing the following basic prerequisites for such a policy: (1) Encouragement of imports on a non-discriminatory basis; (2) a high degree of internal business stability; (3) avoidance of extreme and abrupt changes of the price level of United States products; (4) a responsible investment policy abroad.

APPENDIX

TABLE XIX

INDEX NUMBERS OF WHOLESALE PRICES IN LATIN AMERICA AND U. S. A.

1937—100

	1939	1940	1941	1942	1943	1944	1945	1946	Sept., 1947
Argentina x	96	110	129	167	180	188	193	208	226
Chile	93	102	119	162	179	184	196	227	313
Costa Rica x	99	95	101	132	165	173	189	190	228
Dominican Republic x[1]	....	...	100	123	166	203	201	236	296[2]
Mexico x	107	108	114	127	152	195	214	250	253
Peru x	105	119	140	175	201	208	218	234	352
Venezuela	97	96	105	108	118	129	140	149	162[2]
United States	89	91	101	114	119	121	123	140	182

x Prices in the capital city.
[1] Base: 1941—100
[2] June, 1947.

Source: *Monthly Bulletin of Statistics*, Statistical Office of the United Nations, No. 11, November, 1947, Table 58.

TABLE XX

INDEX NUMBERS OF THE COST OF LIVING—ALL ITEMS—IN LATIN AMERICA AND U. S. A.

1937—100

	1939	1940	1941	1942	1943	1944	1945	1946	July 1947	Sept 1947
Argentina	101	103	106	112	113	113	135	159	185	...
Bolivia	163	218	278	361	441	470	496	533	619x	...
Brazil	107	111	124	139	154	170	197	222	xxx	xxx
Chile	106	119	137	172	201	224	244	283	383	397
Colombia	118	114	112	122	141	170	189	207	251	...
Costa Rica	101	99	102	123	158	167	177	184	212	211
Cuba[1]	94	92	100	132	151	172	194	xxx	xxx	xxx
Dominican Republic[2]	...	...	100	120	150	174	181	202	235	...
Mexico	116	117	121	140	183	230	247	308	345	351
Panama[3]	...	...	...	153	156	159	162	175	191	196
Paraguay[4]	109	113	128	144	176	193	214	236	275xx	xxx
Peru	100	107	116	131	142	163	182	200	253	281
Uruguay	105	110	109	112	118	121	139	153	170x	xxx
Venezuela[5]	107	102	101	111	122	141	141	150	171	...
United States	97	98	102	113	120	122	125	136	154	160

x March, 1947 xx February, 1947 xxx No figures available.

1 Base: July-December, 1937—100, food only.

2 Base: 1941—100.

3 Base: 1939-1940—100, food only.

4 Base: 1938—100.

5 Cost of food, coal, and soap.

In all cases, except Cuba and the United States, prices are those in the capital city.

Source: *Monthly Bulletin of Statistics*, Statistical Office of the United Nations, No. 11, November, 1947, Table 57.

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